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America's Aging Population: Issues Facing Business and Society

by Shirley H. Rhine
Economist

A Research Report from The Conference Board

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About This Report

Two central themes of this report are the aging of our population and the growing propensity for early retirement. Today, 16 out of every 100 persons in the United States are at least 60 years old, compared with only 12 out of every 100 in 1950. Moreover, the middle-range projections of the Bureau of the Census indicate that 24 out of every 100 persons in the population will be 60 years old or over by 2030.

Accompanying the rise in the proportion of older persons in our population has been a marked trend toward early retirement. Three or four decades ago, most people waited until 65 to retire; in recent years, however, the vast majority has been retiring before age 65. The environment that has provided the impetus for early retirement, together with the implications of this phenomenon, is also examined.

This report concludes with a number of policy options that call for study in the years immediately ahead. Particular emphasis is placed on the need for planning now for the huge increase in the numbers of older persons between the years 2010 and 2030. Policymakers in both the private and public sectors will be reassessing retirement policies, pension policies, social security legislation, and other influences that impinge on retirement decisions and on the costs of supporting the nonworking elderly population.

Foreword

A considerable body of federal legislation addressing the needs of our nation's older people has been enacted over the past decade and a half. Most recently, the 1978 Amendments to the Age Discrimination in Employment Act banned mandatory retirement for most workers before age seventy, effective in the beginning of 1979. It will, of course, take time to evaluate the long-term effect of this legislation on retirement rates.

A rapidly expanding elderly population, combined with a trend toward earlier retirement, has meant a growing burden on the working portion of the population—mainly through increased taxes for social security. High inflation rates since the early 1970's have added to the costliness of supporting the nonworking elderly. Moreover, about 30 years from now, when the post-World War II "baby boom" generation begins to retire, the burden will be greater still. How much greater will depend in large measure on future retirement trends. Private and public policies, of course, will be a major influence on those trends.

Corporate executives, union leaders, legislators and social scientists working in the field of gerontology have already begun to weigh a variety of policy alternatives. It is hoped that this study will serve as a concise and convenient source to aid their thinking about the problems of the older worker, aging and retirement. It is additionally hoped that this report will help dispel the notion—evidently still held by many public and private planners, as well as others—that the elderly constitute a homogeneous population of "senior citizens" with similar needs and resources, rather than an exceedingly diverse aggregation of individuals.

KENNETH A. RANDALL
President

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Chapter 1

Introduction

THIS STUDY is a profile of the elderly in America. While concern about this portion of the population has been evident for several decades, it gained considerable momentum in the 1970's and shows no signs of abating. Some of the numerous developments that have contributed to the heightened interest in the elderly are:

- The number of persons 65 and over has been increasing considerably faster than the rest of the population and will continue to do so in the future. In 1940, only one person out of every fifteen was at least 65 years old, compared with one out of every nine today. By 2030, they are expected to account for one out of six.

- Not only have they grown numerically but also in political strength as they have acquired greater sophistication and recognition—in part through their expanding membership in such organizations as the American Association of Retired Persons, the Gray Panthers, and the National Council of Senior Citizens.

- Unabated inflation in recent years has drawn attention to the nonworking elderly, most of whom have significant portions of fixed income whose purchasing power erodes sharply in times of rapid price increases.

- Rising numbers of older persons, coupled with the trend toward early retirement, means that it costs more to support them. Government programs that provide retirement and health-care benefits to the elderly constitute fully three-eighths of the entire fiscal 1980 federal budget.

New Initiatives and New Information

In response to the concern about the aged, a number of legislative steps have been taken. Among the more important of these are:

- Eligibility for social security retired-worker benefits has expanded dramatically since 1950.

- Average social security retired-worker benefits have risen sharply since the late 1960's—even when corrected for inflation—through ad hoc increases and, starting in 1975, through cost-of-living adjustments.

- The Age Discrimination in Employment Act (ADEA) of 1967—effective in mid-1968—prohibited discrimination in the workplace against employees aged 40 through 64. The 1978 Amendments to the ADEA—effective January 1, 1979—banned mandatory retirement before the age of 70 for most employees. In essence, protection under ADEA was extended to workers through age 69.¹

- Health insurance for the aged (medicare) became effective in mid-1966.

- Subsidy payments to the elderly to help defray higher fuel costs were enacted in 1979.

- Many other initiatives in a variety of areas—long-term care, health care, housing for the elderly, public transportation, educational opportunities, and work practices—are being explored.

- Considerable research is under way, or has been completed—by both governmental and private institutions—to learn more about the economic, medical, psychological and social implications of aging, and to formulate policy directions for meeting the needs of the retired and elderly.

The impetus for enhancing the well-being of the elderly emanates from an apparently broad-based constituency. The most intense pressure for higher social security benefits, medicare, more and better private pensions, and other monetary considerations for older Americans that have by now come to be taken for granted presumably has come from those who are the more immediate beneficiaries—retirees and their dependents and survivors; those approaching retirement; and, perhaps to some extent, their children. These constituencies obviously represent a major share of the nation's voters.

Further, the general climate of responsiveness to the needs of the more vulnerable segments in our society has probably been heightening and may have also been a salient influence in the uptrend of social security benefits. For the most part, passage of legislation that advanced the economic welfare of the older, nonworking population has been accomplished with relative ease. Will this predisposition endure?

“The key question is the strength of the unwritten agreement between young and old embodied in the social security system: Will younger workers continue ungrudgingly to support an ever-larger group of non-working older Americans, in the expectation that they in turn will be adequately supported during their predictably longer retirement years

¹See Ruth Gilbert Shaeffer, *Nondiscrimination in Employment—and Beyond*. The Conference Board, Report No. 782, 1980.

by the succeeding generation? The adjustments necessary to assure a positive response to this question are just beginning."²

The Course of Retirement Policies

The posture of most concerned observers—legislators, actuaries, economists and industrial gerontologists—has been to deplore the early retirement trend that started after World War II and accelerated in the 1960's. Their rationale is that keeping people in the labor force longer will reduce social security costs, increase the nation's output, and enhance the well-being of older persons.

However, there is little evidence thus far that the groups most directly affected—employers, labor unions, and especially older employees—are eager to reverse the trend. For the most part, employers' policies continue to encourage rather than discourage early retirement. Labor unions, too, tend to favor such policies. And, judging by the large numbers of workers who choose voluntarily to retire at 65 or earlier, it appears that working beyond 65—or even until 65—is often (if not mostly) a matter of financial necessity rather than of personal predilection.

Two prime considerations in determining whether or not to discourage early retirement are the willingness and ability of the future working population to support the retirees. Harold L. Sheppard, a leading industrial gerontologist, suggests that samples of the working population be surveyed periodically to learn their attitudes toward supporting varying sizes of retired populations—for example, how much taxation would be considered tolerable?³

Sheppard also suggests that more has to be known about the economy's capacity to support growing numbers of retirees. Future rates of productivity growth are an intrinsic component in making that determination. For example, what rate of nonparticipation in the labor force would seriously strain the economy? Or, conversely, what level of labor-force participation by older workers would best serve our economic interests? This area still requires thoughtful research.

According to the Hon. Fred B. Rooney, former Chairman of the Subcommittee on Retirement Income and Employment of the House Select Committee on Aging:

"The time is ripe for formulating our national agenda to meet the future demands of our society's changing age structure . . . Specific-

²1978 *Employment and Training Report of the President*, prepared by the U.S. Department of Labor and the U.S. Department of Health, Education and Welfare. Washington, D.C., 1978, p. 86.

³Harold L. Sheppard, *Research and Development Strategy on Employment—Related Problems of Older Workers*. Washington, D.C.: American Institutes for Research, 1978.

ly, we need to identify emerging work and retirement trends and address such fundamental issues as: What will be the definition of 'old age' in the year 2008? What will be the nature of work and retirement some 30 years from now? What is the labor force involvement of older persons likely to be in the future? What will be the future roles of the various components of our retirement income systems—social security, public and private pensions, and individual savings? These and other far-reaching questions must be dealt with if Congress intends to heed the warning of population predictions and begin now to plan for what will undoubtedly be a very different world of work and retirement in the year 2008 and beyond."⁴

Clearly the years immediately ahead will be a time of diligent searching for solutions to the problems of a population that is not only aging rapidly but also has a high propensity for early retirement. The confluence of these two phenomena implies a growing financial burden on the working population stemming from higher outlays for social security benefits, for long-term care of the infirm elderly, and for the higher medical expenses associated with an aging population.

⁴Statement made at the Joint Hearing before the Subcommittee on Retirement Income and Employment and the Subcommittee on Human Services of the Select Committee on Aging, House of Representatives, 95th Congress, 2nd Session, May 3, 1978, *Public Policy and the Future of Work and Retirement*, p. 1.

Chapter 2

The Aging Population

THE POPULATION of the United States has been aging dramatically, particularly during the past half century. Older persons—whose number has been expanding at a far faster pace than the younger age groups—constitute a rising proportion of our total population (Chart 1). Since 1950, the 60-plus component has grown more than twice as fast as the under-60 segment with the most spectacular growth registered by the 80-plus group:

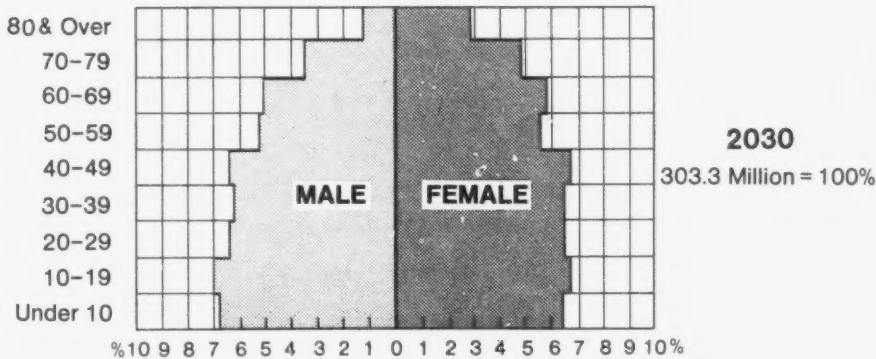
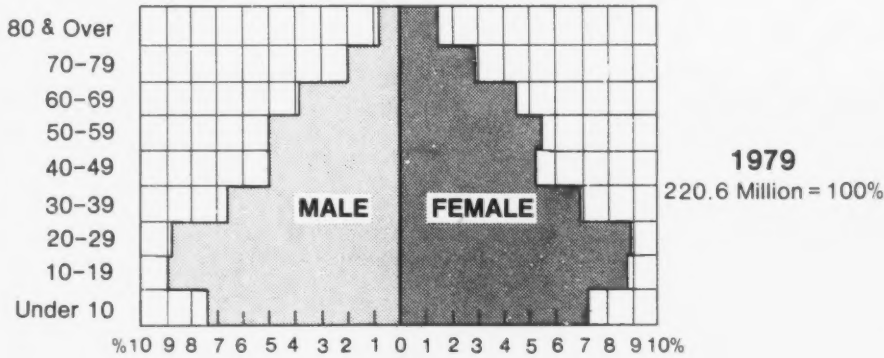
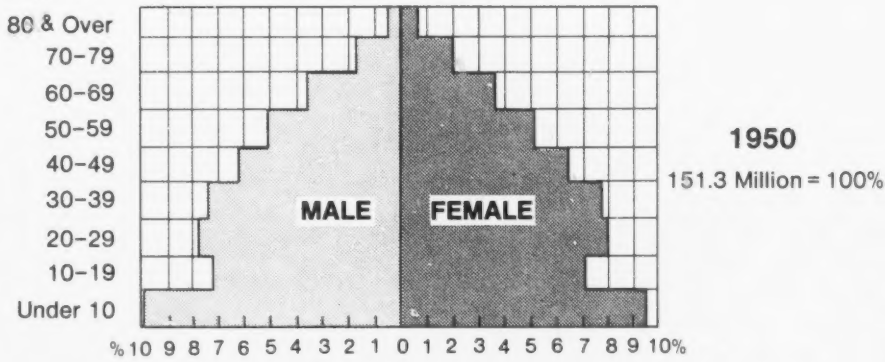
	<i>Number in 1979 (millions)</i>	<i>Percent increase, 1950 to 1979</i>
Total U.S. Population.	220.5	+ 45%
Under 60 years old.	186.3	+ 40
60 years old and over.	34.2	+ 86
80 years old and over.	5.1	+ 200

Today, one out of fourteen people in the United States is at least 70 years old, as compared with one out of twenty in 1950. Furthermore, if the middle-range projections of the Bureau of the Census are borne out, the rate of growth for the older age groups will outpace the rest of the population by an even greater margin than in the past three decades.¹ In the next half century, the 60-plus segment is expected to expand at least four times as

¹The Bureau of the Census publishes three series of population projections. The projections used throughout this study are from Series II. All three assume a slight decline in mortality and an annual net immigration of 400,000 persons. The differences among the three series reflect different assumptions with respect to future fertility. The average number of lifetime births per woman, which has hovered around 1.8 in the past five years, in Series I is assumed to rise steadily until the year 2000, when it will reach 2.7, and remain at that level throughout the remainder of the projected period, which extends to 2050; in Series II, the fertility rate is scheduled to rise more slowly—leveling off at 2.1 in the year 2000 and beyond; in Series III the rate is assumed to be 1.6 from 1977 (the year in which the projections were made) through 1980 and 1.7 thereafter.

Chart 1: Distribution of the U.S. Population, by Age and Sex, 1950, 1979, 2030

AGE



Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, Nos. 311 (July 2, 1965), 704 (July, 1977), and 870 (January, 1980).

fast as the under-60 population, and the 80-plus group will continue to grow the most rapidly:

	<i>Projected Number in 2030 (millions)</i>	<i>Percent increase, 1979 to 2030</i>
Total U.S. Population.	300.3	+ 36%
Under 60 years old.	229.6	+ 23
60 years old and over.	70.7	+ 107
80 years old and over.	12.7	+ 149

By 2030, 24 persons out of every 100 will be at least 60 years old, compared with 16 out of every 100 today.

The median age of the population rose steadily from 17 years in 1820 to 29 in 1940. It has changed little since—hovering between 28 and 30 where it is today. The relative stability of the median age in the past four decades reflects mainly a rough trade-off between the enormous growth of the 65-plus segment and the sizable increase in the 10-to-29 year olds—the “baby boom” generation of the late 1940’s to early 1960’s.

Another measure of how rapidly our population has been aging is the rate of expansion in the number of persons 65 years old and over per 100 persons under 18 years of age. This “index of aging,” which stood at 26 in 1960 and at 12 in 1920, reached 39 in 1979 (Chart 2). The sharp rise in the past two decades reflects two concurrent developments: (1) a decline in the under-18 group during the 1970’s, reflecting the sizable drop in births since the early 1960’s; and (2) the sharp increase in the 65-and-over population.

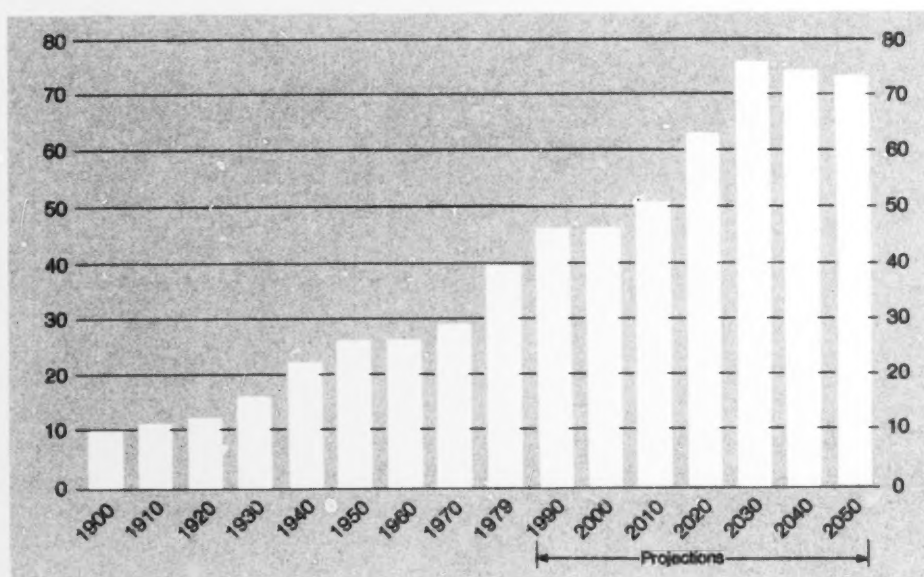
Considerable further increments in the index of aging are anticipated for the next half century. Using the Series II population projections of the U.S. Bureau of the Census, it is estimated to grow to about 51 in 2010 and then to accelerate, reaching 76 in 2030.

Forces Underlying Demographic Shifts

The impressive rise in the number of older persons in the past four or five decades stems primarily from two causes: One is the appreciable decline in mortality rates—largely reflecting medical advances. The reduction in the number of deaths per 1,000 population became considerably more pronounced after 1940 than it had been before. Table 1 gives the details for those 55 and over.

The other reason for the sharp growth of the older part of the population is the exceptionally high birthrate for several decades before World War I. Between 1870 and 1916, there was an annual average of about 33 live births per 1,000 population, substantially more than the 25 per 1,000 population average during the post-World War II “baby boom.” The high birthrate

Chart 2: Index of Aging, 1900 to 2050*



*As used here, the index of aging is the number of persons aged 65 years and over for every 100 persons under 18.

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, Nos. 311 (July 2, 1965), 704 (July, 1977), and 870 (January, 1980).

during the four-and-a-half decades preceding World War I coincided with a vigorous wave of immigration. A sizable proportion of those immigrants were either young married couples or single persons on the threshold of marriage.

The major component of the huge expansion in the proportion of aged persons projected for a half century from now is the "graying" of the "baby boom" generation, combined with a falling birthrate since the early 1960's. Live births have dropped from an annual average of some 25 per 1,000 population in the period from the late 1940's to the early 1960's to around 15 today. The Bureau of the Census projections also assume a slight decline in the mortality rate.

Implications of an Aging Population

Such a mammoth demographic shift is bound to produce reverberations—attitudinal as well as social and economic. A quarter of a century from now older people will not only constitute a greater proportion of the population, they will also be better educated, better off economically, more sophisticated, and will wield more political power than their present-

Table 1: Mortality Rates, 1900 to 1978
Number of Deaths per 1,000 Population for Specified Groups of Older Persons

Year	Men				Women			
	55-64 years	65-74 years	75-84 years	85 Years and over	55-64 years	65-74 years	75-84 years	85 Years and over
1900	28.7	59.3	128.3	268.8	25.8	53.6	118.8	255.2
1910	28.7	58.7	127.4	255.8	23.7	52.4	117.4	246.0
1920	24.6	54.5	122.1	253.0	22.4	50.5	115.9	244.7
1930	26.6	55.8	119.1	236.7	21.2	46.8	106.6	221.4
1940	26.1	54.6	121.3	246.4	18.0	42.2	103.7	227.6
1950	24.0	49.3	104.3	216.4	14.0	33.3	84.0	191.9
1960	23.1	49.1	101.8	211.9	12.0	28.7	76.3	190.1
1970	22.8	48.7	100.1	178.2	11.0	25.8	66.8	155.2
1978p	18.8	41.9	93.7	170.8	9.9	21.2	58.3	135.9

p—Provisional

Source: U.S. Department of Health, Education and Welfare, National Center for Health Statistics, 1900 to 1970 cited in U.S. Bureau of the Census, *Historical Statistics of the United States*, Part 1, 1975, pp. 60-62. 1978 from *Monthly Vital Statistics Report, Annual Summary for the United States, 1978*, August 13, 1979, p. 21.

day counterparts. The "accent on youth" and the tendency to disparage the aged—characteristic of our society for at least the past two generations—may give way to a more balanced view of the aging process.

The activities of retirees are likely to change. It is possible that proportionately larger shares of future retirees will be working without pay to provide various types of services for the community that might not otherwise be available.

This trend is implied by the findings of two surveys that suggest that there is a greater incidence of volunteer work among those with higher levels of education and income. For example, some 20 percent of retirees were working as volunteers, according to a survey conducted by Louis Harris Associates in 1974. However, a sample of retirees who, on the average, had more years of education—and were more affluent than the retired population as a whole—showed that 34 percent were working as volunteers at the time they were surveyed in 1976, and an additional 9 percent had engaged in volunteer work at some previous time in their retirement.²

Shifts in demand for products and services, together with shifts in types of investments, which have begun to occur as the population has aged, will

²The retirement experience of a special group of people—those who had retired from managerial or professional jobs in major U.S. companies—is documented in Walter S. Wikstrom, *The Productive Retirement Years of Former Managers*. The Conference Board, Report No. 747, 1978.

undoubtedly continue during the next half century. More retirement communities, more nursing homes, and an increasing proportion of disposable income spent on medical care are among the changes implied by the projected demographic trends.

Also, enrollment in college courses, travel, sports, visits to museums and art galleries, and attendance at concerts and plays may be more popular activities for future generations of retirees than they have been up to now.

"As more marketers begin to discover the true characteristics of the 'senior market'—that the vast majority of the 65-plus population are not impoverished, that substantial numbers have significant economic means, that this economic power is increasing and will continue to do so in the decade of the 1980's, that the seniors are conspicuous consumers of a wide range of products and that many areas of unmet needs exist—the 'senior' will no longer be ignored and instead will become a significant force in the changing marketplace of the decade ahead."³

Long-Term Care

Because of the relatively high incidence of disabling conditions among elderly persons, the rapid rise in their number in the next five decades, especially for the 75-plus group, implies a vigorously growing need for adequate long-term care that does not entail exorbitant costs.⁴ Among the challenges in this area will be the development and promotion of programs that serve the elderly outside of institutions.

"Long-term care should not be thought of solely in terms of placing individuals in costly facilities, such as nursing homes, chronic disease hospitals, and psychiatric hospitals. Long-term care might be better addressed in terms of providing support to individuals who need continued assistance in carrying out the tasks of daily living. This concept reflects a growing national emphasis on promoting the independent functioning of the disabled. Indeed, the majority of the elderly who might otherwise be institutionalized can and do live in the community with social, medical, income and housing support—much of which is provided by their family and friends."⁵

³Carole B. Allan, "The Older Consumer: The Time is Now." *National Journal*, November 24, 1979, p. 2000.

⁴According to unpublished data from the 1977 Health Interview Survey (National Center for Health Statistics of the U.S. Department of Health, Education and Welfare), 15 percent of persons 65 to 74 years old were unable to carry on major activity and an additional 19 percent had limitations in amount or kind of major activity they could perform; comparable data for persons aged 75 and over were 22 percent and 23 percent respectively.

⁵U.S. Office of Management and Budget, *The Budget of the United States Government, Fiscal Year 1981*, Washington, D.C. 1980, p. 55.

Mounting Costs of Social Security

The combination of an increasing number of recipients of social security benefits and a steady rise in the amount of average benefit has caused OASDHI (Old-Age, Survivors, Disability and Health Insurance) outlays to soar. By mid-1979 there were some 18.6 million persons receiving retired-worker social security benefits. This compares with 12.6 million a decade ago—an increase of nearly 50 percent—but the total labor force has grown by only 27 percent during that period. As the ratio of number of workers to number of recipients of benefits declines, current workers assume a heavier burden—through higher social security taxes—to support those who have retired.

When the 16.1 million other social security beneficiaries—dependents and survivors of retired workers, survivors of deceased workers, and beneficiaries of disability benefits and their dependents—are added to the 18.6 million retired workers, the number of total social security beneficiaries reached 34.7 million by mid-1979, or 3.2 covered workers for each OASDI beneficiary. This compares with a total of 14.3 million OASDI beneficiaries in 1960, or 5.1 covered workers for each beneficiary. Moreover, the long-term decline in the ratio of workers to beneficiaries continues to have considerable momentum. The ratio is expected to decline only modestly during the next two decades, but then to drop rather sharply to 2-to-1 by 2030 before it stabilizes, according to projections of the Social Security Administration (Chart 3).

In dollar terms, the figures are perhaps even more striking. For fiscal 1979, old age and survivor benefit payments by the Social Security Administration (payments to retired workers and their dependents and to survivors of insured workers) had reached \$86.6 billion, or almost eight-and-a-half times the \$10.3 billion spent in fiscal 1960. Even when corrected for inflation—the Consumer Price Index rose by some 130 percent during this 19-year interval—the 1979 amount was still three-and-a-half times that of 1960.

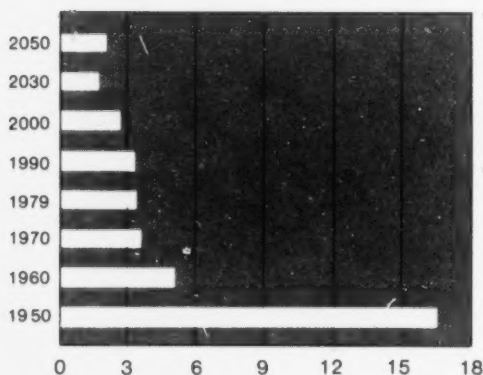
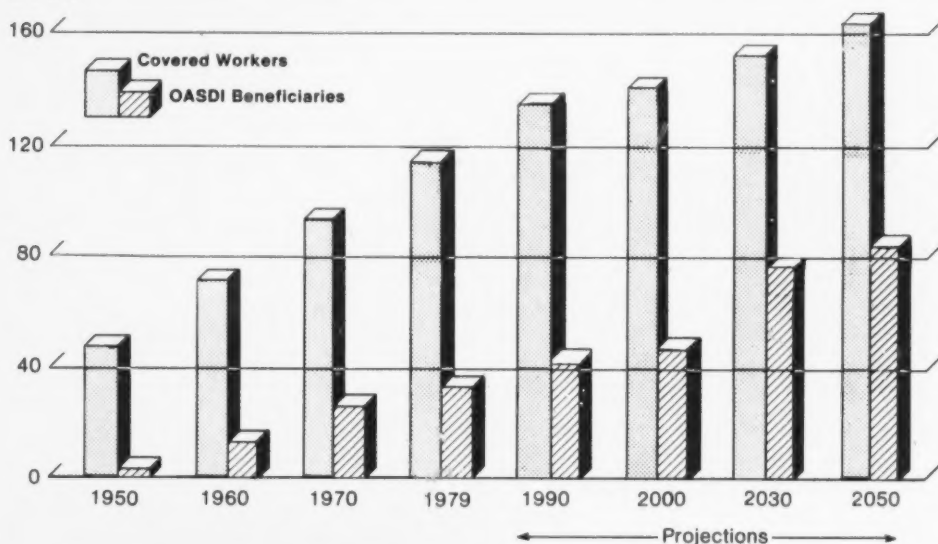
Social security payments to disabled workers and their dependents in fiscal 1979 amounted to \$13.4 billion, or 27 times the \$0.5 billion in fiscal 1960. Moreover, the 1979 payments for disability were still 11 times greater than the 1960 amount, expressed in 1979 dollars.

While contributions by employers and employees to the three OASDHI trust funds (old age and survivors, disability and hospital insurance) have also risen sharply since 1960—reflecting higher tax rates and higher taxable wage bases—beginning with fiscal 1976, they have not been rising fast enough to keep up with expenditures.

The Social Security Amendments of 1977 provided for a significant increase in receipts starting in 1979 by substantially raising both the taxable

Chart 3: Covered Workers and OASDI Beneficiaries, 1950 to 2050

Millions

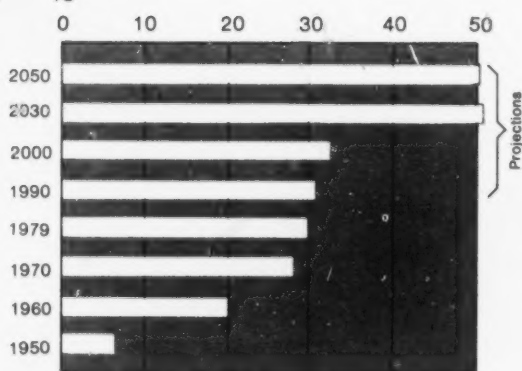


Covered Workers
Per OASDI Beneficiary*

*Covered workers are workers with taxable earnings at some time during year.

OASDI Beneficiaries Per 100 Workers ▲

▲ OASDI beneficiary is a beneficiary in current pay status as of end of June.



Note: Projections are based on an intermediate set of assumptions. The Trustees' Report also presents projections based on two other sets of assumptions—"more optimistic" and "more pessimistic" than the intermediate set.

Source: Social Security Administration, 1980 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table 31.

wage base and the tax rates beyond the levels scheduled in the preceding legislation:

Year	Maximum Taxable Earnings		FICA ¹	
	New Law (effective 1979)	Old Law (effective 1974 through 1978)	New Tax Rate	Old Tax Rate
1977.....	\$16,500	\$16,500	5.85%	5.85%
1978.....	17,700	17,700	6.05	6.05
1979.....	22,900	18,900	6.13	6.05
1980.....	25,900	20,400	6.13	6.05
1981.....	29,700	21,900	6.65	6.30

¹Additional increases are scheduled for 1982, 1985, and 1990 when the rate for employer and employee will reach 7.65 percent each as against the 6.45 percent it would have been in the absence of the 1977 Amendments. The OASDHI tax rate for the self-employed this year is 8.10 percent, unchanged from 1979, but it is scheduled to increase gradually to 10.75 percent in 1990—when it would have been 8.10 under previous legislation.

Beginning January 1, 1982, the wage base will rise automatically as it had under the old law: It will increase each year at the same rate as average taxable earnings during the preceding one-year interval.

Programs that provide retirement and health care for the elderly currently amount to nearly 38 percent of the federal budget.⁶ With the enormous increase in the number of persons 62 years old and over that will occur between 2010 and 2030, when the "baby boom" generation reaches retirement age, such programs are likely to consume even a greater share of federal spending.



Dependency Ratios

Pressure for improving the economic status of the elderly has been accentuated since the mid-1960's. Not only do older persons represent a growing political force because of their sheer numbers and better organization, but increasing proportions of middle-aged and older persons—approaching, if not already in, retirement—have elderly parents.

Shrinking Familial Support Base

In 1920, for every 100 persons 60 to 64 years old, there were 21 persons 80 and over. By 1979, the ratio had soared to 53 per 100. This means that today the likelihood of someone aged 60 to 64 having a living parent or other elderly relative is more than twice as great as it was sixty years ago.

⁶U.S. Office of Management and Budget, *The Budget of the United States Government, Fiscal 1981*, p. 55.

Moreover, according to present projections, in half a century there will be some 80 persons aged 80 and over for every 100 aged 60 to 64 (Table 2).

The second set of familial aged dependency ratios in Table 2 shows how much more likely it is today for a person in his or her upper 40's to have a living parent than it was in the early decades of this century. While the population aged 65 to 84 years old was outnumbered by the 45 to 49 year olds in the early decades of this century, today there are nearly two persons in the older category for every one person in the younger one. In another 50 years, it is projected that this ratio will be higher still.

There are two important implications of the shrinking familial support base: (1) not only would the cost of supporting an elderly parent or parents have to be borne, on the average, by fewer children than was the case a generation or two ago; but (2) the growing tendency for elderly parents to live apart from their children increases the costliness of such support.

The societal aged dependency ratio, which has risen considerably since 1930, is expected to level off in the next three decades and then to rise sharply until 2030, after which it is projected to stabilize—at least until 2050. The total dependency ratio—the relationship between two age groups considered dependent (the over 65 and the under 18) and the age group that spans what is regarded as the working years (18 to 64)—reached its 20th-century peak in 1960, reflecting mainly the huge number under 18 years of age—the “baby boom” generation. Since then it has receded and should continue to decline through the first decade of the 21st century, after which the decline should reverse for two decades before it stabilizes (Table 2).

The decline in the total dependency ratio, which started in the mid-1960's and is projected to continue until 2010, may present a somewhat distorted picture: Young dependents and old dependents are not equivalent in their economic needs or in the type of care (and skills) required. For example, two economists, using public expenditures as the basis for analysis, have estimated per capita costs for an elderly person at roughly three times more than those for a young person.⁷

Concern has been expressed about the possibility of a polarization developing between the older nonworking population—recipients of social security—and the younger working members who are said to resent rising social security costs. Would people prefer to pay lower social security taxes if it meant having to shoulder directly more of the support of their elderly parents or even grandparents?

“Needless to say, what appears in the social accounts as a large increase in the income allocated to old people obscures the fact that in the absence of payroll or other taxes, workers would need to support their parents directly. Or alternatively, persons at work would have to save enough to provide for

⁷Robert Clark and Joseph Spengler, “Population Aging in the Twenty-First Century,” *Aging*, January-February, 1978.

Table 2: Dependency Ratios, 1900 to 2050

YEAR	Familial Aged Dependency Ratio		Societal Aged Dependency Ratio	Total Dependency Ratio
	80 and over	65 to 84	65 and over	under 18 plus 65 and over
	60 to 64	45 to 49	18 to 64	18 to 64
1900	.21	.86	.07	.80
1910	.22	.85	.07	.73
1920	.21	.82	.08	.72
1930	.22	.90	.09	.68
1940	.24	1.05	.11	.60
1950	.28	1.30	.13	.64
1960	.36	1.44	.17	.82
1970	.43	1.54	.17	.78
1979	.53	1.99	.18	.65
1990	.62	1.93	.20	.64
2000	.78	1.47	.20	.63
2010	.60	1.50	.20	.59
2020	.51	2.43	.26	.67
2030	.80	2.55	.32	.74
2040	1.11	2.43	.31	.72
2050	.96	2.46	.30	.72

Note: 1990 to 2050 derived from Series II population projections of the U.S. Bureau of Census.

Sources: 1900 to 1970 data, columns 1, 2, & 3: Jacob S. Siegal, *Demographic Aspects of Aging and the Older Population in the United States*, U.S. Bureau of the Census, *Current Population Reports, Special Studies*, Series P-23, No. 59, Washington, D.C., May 1976.

1900 to 1970 data, column 4: U.S. Bureau of the Census, cited in *Historical Statistics of the United States, Colonial Times to 1970*, Bicentennial Edition, Part I, Washington, D.C. 1975. Ratios computed by The Conference Board.

1979 data, all columns: U.S. Bureau of the Census, *Current Population Reports, Population Estimates and Projections*, Series P-25, No. 870, Washington, D.C., January, 1980. Ratios computed by The Conference Board.

1990 to 2050, all columns: U.S. Bureau of the Census, *Current Population Reports, Population Estimates and Projections*, Series P-25, No. 704, Washington, D.C., July 1977, and unpublished data. Ratios computed by The Conference Board.

their own needs during retirement."⁸ But to provide for an adequate retirement income through savings without the benefit of public or private pensions would require exceedingly high savings rates. For example, James H. Schulz, Professor of Welfare Economics at Brandeis University, estimates that to achieve an income throughout retirement that equals 60 to 65 percent of average annual earnings during the five years preceding retirement would entail a savings rate of some 20 percent annually, starting at age 25

⁸Juanita M. Kreps, "Age, Work, and Income." *Southern Economic Journal*, April, 1977, pp. 1430-1431.

and continuing until retirement at age 65.⁹ This is based on the assumption of an average life expectancy after retirement, which in recent years has been 13.7 years for men aged 65.

⁹James H. Schulz, *The Economics of Aging*. Belmont, California: Wadsworth Publishing Company, Inc., 1976.

Chapter 3

The Decision to Retire

RETIREMENT, defined as complete or substantial withdrawal from gainful employment, has a wide range of connotations to different individuals. At one extreme, it may be the crowning phase of a lifetime—offering many satisfactions and new challenges. At the other extreme, it may be life's nadir—filled with frustration, emptiness and economic and emotional deprivation.¹ For many, of course, the quality of the retirement experience lies somewhere between these two poles. How satisfying and welcome retirement is depends on many personal variables, including the size of financial resources, condition of health, educational and occupational background, degree of commitment to work, availability and supportiveness of friends and family, and breadth of interests.

Older Men in the Labor Force

The growing number of people in the United States who are retiring voluntarily strongly suggests that retirement has become increasingly attractive. The decline in the labor-force participation rates of older men has been one of the outstanding demographic developments since World War II, perhaps rivaling the spectacular growth of both the female labor force and the number of college graduates.

More and more older persons, not only 65 and over but also in their late 50's and early 60's—particularly those 62 to 64 years of age, when actuarially reduced retired-worker social security benefits become available—have been leaving the labor force in the past two decades. Only 47 percent of the male population aged 55 or over is in the labor force today, compared with 61 percent in 1960. Even more striking is the decline in the participation

¹J. Roger O'Meara, *Retirement: Reward or Rejection?* The Conference Board, Report No. 713, 1977.

rates of men aged 65 and over, which plummeted from 48 percent in 1947 to 19 percent for January-April 1980.

More Older Men Work Part Time

Not only are smaller proportions of older men working, but of those who remain in the labor market a greater share works part time (up to 34 hours per week). Between 1968 and 1978, the percentage of employed persons 45 years of age and older who worked part time rose markedly—for women as well as men—and especially for persons 65 years old and over (Chart 4). This trend probably reflects both a growing preference for part-time employment and the greater availability of such employment.

Why a Rising Proportion of Older Men Have Been Leaving the Labor Force

While the dramatic drop in labor-force participation rates of older men reflects a number of influences, the improved economic status of retirees during the past quarter of a century—particularly since the late 1960's—is probably the prime influence.² That increasing numbers of persons are able to live in relative comfort in retirement is attributable in large part to considerably broadened social security coverage and sizable increments in benefits. Average monthly benefits rose at an especially rapid rate between 1967 and 1972—some 70 percent, well beyond the 25 percent rise in the Consumer Price Index for that interval. (In 1950, social security coverage extended only to workers in commerce and industry, or some 65 percent of the total work force. Today it applies to over 90 percent of the work force.)

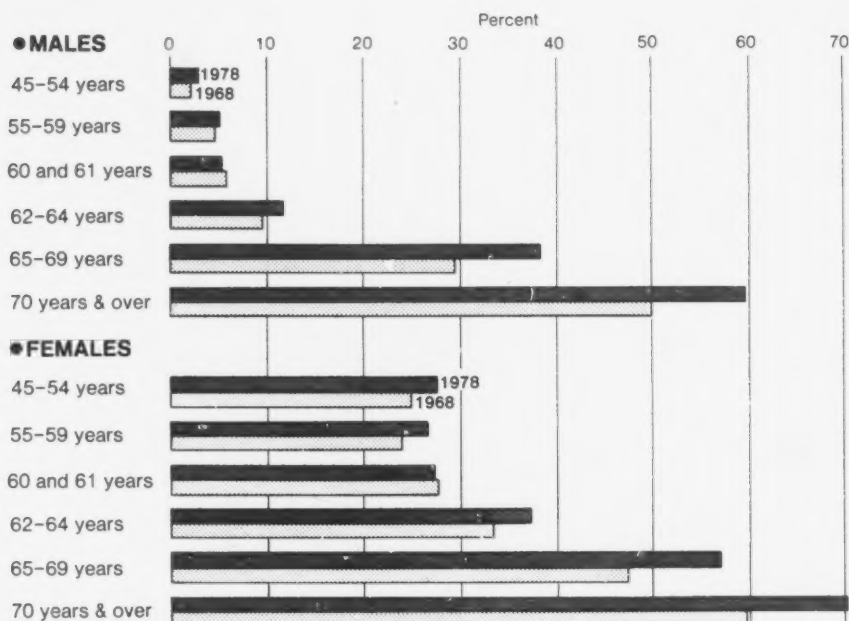
The growth of private pension plans is another development that has enhanced the economic position of retirees. Barely two out of ten retirees in the early 1950's had income from retirement pensions (private pensions, government employee pensions, or railroad retirement pensions) in addition to social security, compared with close to four out of ten today.

The prosperity of the past three decades has also given increasing numbers of individuals the opportunity to accumulate income-producing assets. Then, too, sizable numbers of older people own mortgage-free homes.³ Since July, 1978, as provided in the Revenue Act of 1978, the first \$100,000 of capital gains from the sale of the principal residence of persons

²For a fuller treatment of the factors which have contributed to the receding labor force participation rates of older men since the early 1960's, see Shirley H. Rhine, *Older Workers and Retirement*. The Conference Board, Report No. 738, 1978, pp. 28-33.

³According to the Bureau of the Census, *Annual Housing Survey: 1977* (the latest available), 71 percent of households headed by persons 65 and over were homeowners rather than renters. Moreover, 84 percent of the single-family homes on less than 10 acres owned by this group were mortgage free, according to unpublished data from that survey.

Chart 4: Employed Persons Aged 45 and Over Who Worked Part Time, 1968 and 1978, by Age and Sex



Source: Bureau of Labor Statistics, *Special Labor Force Report*: No. 115 for 1968 and forthcoming for 1978.

aged 55 or over is tax-exempt. This provision, coupled with the large appreciation in real estate values not only during the 1970's but in the past four decades, doubtless gives many older homeowners a potential income source on which they can draw should the need arise.⁴

The reverse annuity mortgage (RAM), a relatively new and as yet not widely available financing arrangement, is another resource that may be offered increasingly to homeowners who desire extra cash. Through this type of borrowing, equity in a home can be converted into income either in the form of one large sum or in annual payments. The money lent to the homeowner under RAM is repaid to the lender—usually a bank—either at a specified date or when the homeowner sells the property or dies (in which case the loan is repaid by the estate of the deceased).

Thus, a substantially greater portion of older workers can afford to retire today than could 30 or 40 years ago. Despite their striking economic gains in

⁴The median price of an existing one-family home in the United States in March 1980 was \$59,500, or more than two and one-half times the March 1970 figure of \$22,800, according to data from the National Association of Realtors. Gains have been sharpest in the West.

the past decade, however, on the average the retired continue to be considerably less well-off than the working segment of the population, and to have less purchasing power than they had before retirement. Also, while increasing numbers have ample incomes to live comfortably, many still need public assistance such as supplemental security income, food stamps, medicaid and subsidized housing. As a rule, the less time that has elapsed since retirement, the more favorable the retiree's financial situation tends to be. The highest incidence of poverty obtains for the very old—those aged 80 or more.

Is a Turnabout in Labor Force Participation Rates in Sight?

It is still too early to determine whether the fairly steady downtrend in labor-force participation rates of older men—a trend that has been in progress for two decades for men 45 to 64 and at least three decades for those 65 and over—has run its course. Even though the participation rate of men 65 and over edged up a bit in 1978 to 20.5 from 20.1 in 1977, in 1979 it receded to the 1977 level of 20.1 (Chart 5).

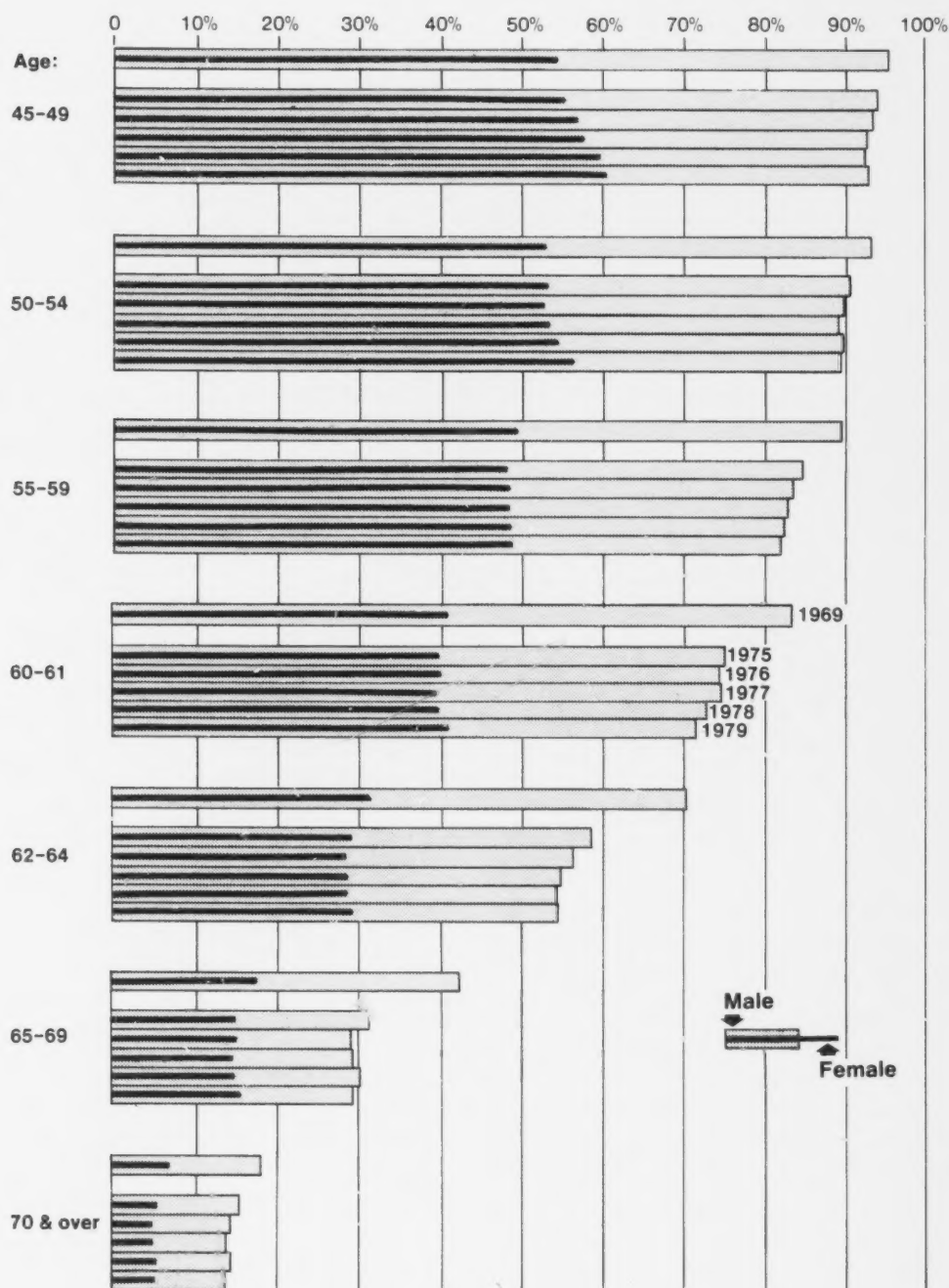
The modest upturn in 1978 may reflect, at least in part, the relatively sizable increase in the earnings test provided by the Social Security Amendments of 1977. The amount of money that a retiree aged 65 through 71 could earn without having to forfeit any social security benefits was raised from \$3,000 in 1977 to \$4,000 in 1978. The \$4,000 was appreciably greater than the \$3,240 it would have been in 1978 under the old legislation, which provided that the exempt amount be increased annually at the rate of taxable wages.⁵

Erosion of purchasing power of the dollar may have been an additional incentive for some of the 65-and-over segment to remain in, or return to, the labor force in 1978 when the CPI had risen 9 percent during the year. But that was after five years of abnormally high rates of inflation. It is surprising that the upturn in labor-force participation rates of older men did not occur sooner; it is also surprising that it was limited to those who were 65 and over but did not include men aged 55 to 64 as well. This suggests that the major impetus to the modest upturn in the proportion of men 65 plus who work was the sizable increase in earnings test which does not apply to retirees under 65.⁶

⁵As in the earlier legislation, \$1 is forfeited for every \$2 earned above the exempt amount, which was raised to \$4,500 in 1979 and \$5,000 in 1980. It will rise by \$500 each year until it reaches \$6,000 in 1982, after which it is scheduled to keep pace with the rate of increase in taxable wages, as had been the practice under the previous legislation. As in the earlier legislation, beginning at age 72 there is no financial penalty on earnings regardless of amount. In 1982 and thereafter, this exemption will be applied starting at age 70.

⁶Calculation of exempt earnings for recipients of retired-worker social security benefits aged 62 to 64 was not changed by the new legislation. In 1978, the exempt amount was \$3,240 compared with \$4,000 for the 65-to-71 year olds. And, of course, persons under 62 are not entitled to social security retired-worker benefits.

Chart 5: Civilian Labor Force Participation Rates for Persons Aged 45 and Over, by Age and Sex, 1969 to 1979



Source: Bureau of Labor Statistics, *Employment and Earnings*, various January issues and unpublished data.

Another puzzling development was the brevity of the 1978 updrift in participation rates of men over 65. A continuation of this updrift through the first quarter of 1980 would have been a reasonable expectation in light of exceedingly high inflation rates—fully 13 percent during 1979 and a seasonally adjusted annual rate of 17 percent in the first quarter of 1980—in addition to the rescission of mandatory retirement at age 65 (effective January 1, 1979). However, that expectation was not realized.

Although there has not yet been any definite indication that its popularity is diminishing, early retirement may wane during this decade. Whether or not it does will depend on numerous developments: the course of inflation; the potential retirees' perception of the economic outlook; the relative tightness or slackness of the labor market; whether employers' personnel policies encourage older employees to remain at work or to retire; whether more flexible work arrangements—particularly part-time jobs—become available; and whether social security legislation will sufficiently enhance the rewards for postponing retirement until the upper 60's or even later.

Older Women in the Labor Force

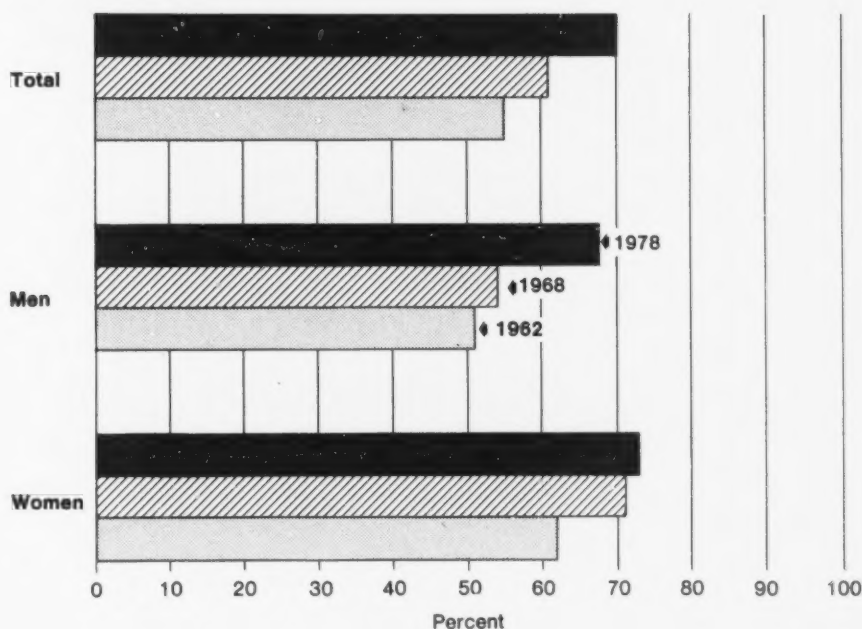
In contrast to men, the labor-force participation rates for women—including older women, at least through age 64—has been climbing since the early 1940's. After a slight downturn between 1970 and 1974, the participation rates of women in the age groups from 45 on have either moved modestly upward or have leveled off.

Women are also increasingly taking early retirement. Moreover, larger proportions of women than men have been availing themselves of actuarially reduced social security retired-worker benefits for early retirement. In 1962—the first full year when both sexes were eligible for these benefits—some 62 percent of newly entitled female beneficiaries were 62 to 64 years old, compared with 73 percent in 1978. For men the comparable figures were 51 percent in 1962 and 68 percent in 1978 (Chart 6).

The reasons for the rising tide of early retirements are probably much the same for women as for men. In addition, there is probably an interactive effect in the case of married couples. Spouses tend to retire within one year of each other. Data from the Retirement History Study of the Social Security Administration show that in 45 percent of the cases the wife's first benefit occurs in the same year as the husband's; in an additional 17 percent of the cases it occurs within a year—either before or after.⁷ Also, wives tend to be younger than their husbands. As of December, 1974, for two-thirds of the couples in the Social Security Administration sample, the wife was at least two years younger than the husband; for nearly half, the wife was at least four years younger. (See box on page 24 for a brief description of the Retirement History Study.)

⁷Alan Fox, "Earnings Replacement Rates of Retiree Couples: Findings from the Retirement History Study." *Social Security Bulletin*, January, 1979.

Chart 6: Proportion of Newly Entitled Beneficiaries Aged 62-64 Years, 1962, 1968, 1978*



*Men became eligible for actuarially reduced social security retired-worker benefits at ages 62 through 64 in August, 1961; women had become eligible in 1956.

Source: Social Security Administration, *Social Security Bulletin*, September, 1979.

Retirement Patterns in the 1980's

The direction of labor-force participation rates of older persons in the years ahead will be influenced by a number of variables, of which inflation may be the most significant. Perhaps high rates of inflation are a deterrent to retirement only when they are regarded as a way of life, rather than a short-term phenomenon. Despite its endurance, the sharp rise in the CPI (Consumer Price Index) during the past seven years—an average annual increase of more than 8 percent—may have been perceived by the bulk of about-to-retire persons as a temporary aberration rather than a long-run expectation.

Inflation exceeded 13 percent in 1979 and reached even higher levels in early 1980. If high rates are expected to continue indefinitely, it seems almost inevitable that uneasiness about future purchasing power will be more common among potential retirees than it apparently has been in recent years. Consequently, a greater proportion of them may decide to remain in the work force longer than they would have if there had been slower rates of inflation which would make for a more sanguine outlook for future price trends.

Retirement History Study

The Social Security Administration in 1969 started a ten-year Retirement History Study (RHS) based on a national sample of some 11,000 persons aged 58 to 63 in 1969, that is, persons born between 1905 and 1911. Since the object of the study was to gather information about persons in the final stage of their work lives as they approach retirement, and then their experience in retirement, those selected for sampling were most likely to be labor-force participants—men and unmarried women. The latter were women who were widowed, divorced, separated, never married, or married with husband absent. Married women were not included since interviews with a sample of married women of that generation indicated that for most of them paid employment had not dominated their lives.

Persons in the sample were interviewed every two years. Among the vast quantities of data collected were size and sources of income, size and type of assets, attitudes toward work and retirement, state of health, etcetera. A prime concern of the study was to learn more about the retirement process and the postretirement experience so that more will be known about what distinguishes early retirees from those who remain in the labor force. The underlying purpose of this longitudinal survey is to gather information that will be useful in evaluating the effectiveness of the social security program and will have implications for its improvement.

The extent and attractiveness of inducements offered to older workers to dissuade them from retiring will also affect their labor-force participation rates. Whether persuasive inducements become widespread will depend, at least partially, on labor-market conditions. If unemployment rates are at relatively high levels, say 6 percent or more, such inducements are less likely to be advanced than would be the case at a time of stronger economic growth and heightened demand for labor.

Several developments are likely to make early retirement less desirable in the future than it has been in the past several years:

- The rapid growth of the total labor force during the past decade will taper off in the early 1980's as the absorption of the postwar "baby boom" generation will have been virtually completed. This could mean greater opportunity for employment of older workers in the current decade than there has been in recent years when relatively high unemployment rates have prevailed—ranging between 5.6 and 8.9 percent monthly since late 1974.
- As work patterns change, it will probably be much easier for older persons to secure part-time or part-year employment—whether to supplement retirement incomes or to fulfill nonmaterial needs, or both. Job sharing—two or three people sharing one job—may become a more widespread practice.
- If the trend toward early retirement is reversed, and increasing numbers of people work until their late 60's and beyond, more consideration may be

given to retraining workers for second careers. If a worker is likely to remain in the labor force for ten or fifteen years after retraining, rather than for only five or six years, there may be greater incentive for employers, educational institutions, and government to plan and provide the funds and facilities for career-change programs. While such programs already exist, there are still relatively few of them.⁸ The more plentiful they become, the more likely older workers are to remain in the workforce for several more years than they would otherwise. By the 21st century, a work life that spans two or three careers may be considerably more commonplace than it is today.

- Provision of pension benefit accruals after 65 may serve as an incentive for some employees to continue to work. Such accruals are entirely voluntary since they are not required by the 1978 Amendments to the Age Discrimination in Employment Act. However, interviews of nearly 1,900 firms conducted by the Institute on Aging of Portland State University (Oregon) in early 1979 revealed that more than half of the companies surveyed either already provided such accruals or were planning to do so in the near future.⁹

- As they become better educated, more articulate, more independent, and more savvy politically, prejudice against employment of older persons—not only 45 years and older but 60 and over—will probably diminish.

- As mandated in the Social Security Amendments of 1977, the delayed retirement credit for those reaching the age of 65 in 1982 and thereafter will be raised from the current 1 percent annually to 3 percent annually.¹⁰ This lags behind an actuarially determined increment—roughly 7 percent per year—yet it may be significant enough to tip the scale toward remaining in the labor force for some who reach 65.

While these impending demographic, attitudinal and institutional changes may dampen the trend toward early retirement, sizable numbers of

⁸Paul Ferrini and L. Allen Parker, *Career Change*. Cambridge, Mass.: Technical Education Research Centers, 1978. Funded by the U.S. Office of Education, this handbook provides brief descriptions of a variety of career-change programs operated by corporations, educational institutions, professional associations, and government agencies.

⁹This finding is based on two surveys: a mail survey of a random sample of 5,000 private companies with 20 or more employees—1,636 firms responded; and a telephone survey of 256 large firms with at least 500 workers. The data were reported by Lois F. Copperman, Douglas G. Montgomery, Frederick D. Keast, in "The Future Labor Force Participation of Older Workers and the Employment Environment," paper delivered at the National Gerontological Association, Washington, D.C., November 29, 1979.

¹⁰A delayed retirement credit is the annual rate at which social security retired-worker benefits are increased for postponement of retirement beyond the 65th birthday. These increments apply through age 71.

people in the 1980's will, no doubt, continue to retire while in their early 60's or before. Those older persons who are satisfied with their retirement incomes and prefer leisure or volunteer work may not be persuaded to remain in, or reenter, the labor force even if the climate for older persons in the work place becomes increasingly agreeable and monetary enticements become increasingly generous.

One specific trend that may act as a damper on postponing retirement until after 65, or even after 62, is the growing prevalence of two-income families. As more and more wives spend the bulk of their adult lives in the labor force, more and more couples will have the opportunity to amass assets, plus entitlement to two pensions (in addition to social security). Hence, the option to retire early with reasonably sound financial resources should be available to greater numbers of couples.

Higher Mandatory Retirement Age Expected to Have Nominal Effects

In the absence of firm data such as will appear in the report of the Secretary of Labor (See box on p. 27), many, if not most, knowledgeable observers—manpower economists and corporate personnel administrators—do not expect the advancing of the minimum permissible retirement age from 65 to 70 to have serious reverberations.¹¹ A Conference Board Survey of 41 “innovative personnel executives,” conducted after the passage of the new legislation, but shortly before it went into effect, found that most of the respondents expect the trend toward early retirement to continue, at least for the next few years, unless additional incentives are offered for postponing retirement beyond age 65.¹² For the majority of the companies in the survey, the typical retirement age is 62, and in some firms it is even 60 and younger.

Reflecting their anticipation that retirement patterns would be affected only minimally, most of the respondents were of the opinion that there would be little or no impact on opportunities for advancement and only a slight impact on the number of entry-level jobs. The overwhelming majority also expect the law to have little or no effect on companies' equal employment opportunity aims.¹³

¹¹Rhine, 1978, pp. 49-51.

¹²Mitchell Meyer, *The Ban on Mandatory Retirement at 65: Management Responses*. The Conference Board, Information Bulletin No. 46, 1978.

¹³The respondents' expectations of how the new law might affect other areas of concern to management, such as employee benefits after 65 and insurance costs (life, health and long-term disability) are also included in Information Bulletin No. 46.

Mandatory Retirement: The New Law

The Age Discrimination in Employment Act Amendments of 1978 ban mandatory retirement before the age of 70 for workers in firms with at least 20 employees and for employees of state and local governments. For most workers employed by the Federal Government, mandatory retirement at any age is abolished. The amendments went into effect on January 1, 1979. For employees covered by a collective bargaining agreement specifying a mandatory retirement age of less than 70, the new law became effective on January 1, 1980 or when the agreement expired, whichever was earlier. The legislation excludes executives and policymakers with lifetime pensions of \$27,000 or more annually; until July 1, 1982, tenured faculty in colleges and universities are also excluded.

Since the passage of the legislation, there has been much speculation about its likely effects. Will there be substantial increases in the number of workers remaining in the labor force after age 65? How will it affect the trend toward early retirement? How will it affect industries and occupations that are declining compared with those that are expanding? What effect does the legislation have on the employment of other labor-force populations—minorities, youth and women? Will it cause any substantial reduction in entry-level job openings and in promotion opportunities? Will most companies exercise their prerogative to terminate employment at age 65 of executives whose pensions will be at least \$27,000 annually? Will previously retired persons seek to reenter the labor force? How will it affect the job mobility of older workers? What effect will it have on benefit costs—pensions, health, disability and insurance? Many groups, inside and outside of government, are currently engaged in research designed to provide answers to these questions.

Among the 1978 Amendments to the Age Discrimination in Employment Act of 1967 was the provision that the Secretary of Labor prepare for Congress a report analyzing the effects of raising the permissible mandatory retirement age to 70. An interim report is to be submitted by January 1, 1981 and a final report by January 1, 1982. This is expected to be an intensive study that will seek answers to the aforementioned questions—plus many others.

Preretirement Counseling

Practical retirement planning programs—which offer older workers a broad range of information that would be helpful in making advantageous retirement decisions—are still uncommon. Most companies offer little or no substantive counseling to prospective retirees. A survey of 800 companies conducted by The Conference Board in 1975 found that 12 percent of the respondents offered no preretirement counseling at all; 53 percent provided only financial data—indicating the income retiring employees would receive from their pensions and from social security and the payment options available; 24 percent included information on medicare and medical benefits from the company; 8 percent added written materials—handbooks

or subscriptions to publications specializing in information of interest to retirees; and 15 percent offered personal counseling.¹⁴

While retirement planning programs are still not widespread, there appears to be a growing commitment on the part of corporate management to institute such programs. A survey of Chief Executive Officers and personnel directors of the *Fortune* 1000 corporations—conducted in July, 1979 by Research & Forecasts, Inc.—revealed that a substantial majority of respondents were keenly aware of the need for preretirement counseling, yet most of the corporations did not have a program addressing this need.¹⁵ However, nine-tenths of the personnel directors felt that in the future “companies will be more committed to retirement planning,” and three-fourths of the CEO’s whose companies had no retirement preparation program thought they should establish one.

If the attitudes and perceptions expressed by the executives of large corporations are prophetic, management should be directing increasing attention to retirement preparation for employees. How fast retirement counseling programs proliferate, of course, will depend in large measure on how effective they prove to be. As more and more retirement planning experience is accumulated, the usefulness of programs to prepare older workers for retirement should be enhanced. Not only will persons who develop these programs become increasingly astute about the most effective subject matter and presentation, but also about what is the optimum age for participation in such programs. Perhaps preretirement counseling should be presented in phases, with information in some areas—financial planning and training for new careers, for example—made available to employees in their middle or late fifties. Other areas—such as options for leisure-time activities and volunteer work—may be most appropriately addressed in the last year or two before retirement.

Why People Do Not Work

There are nearly 59 million persons aged 16 and over who are not working and are not looking for work. Reasons for their not-in-labor-force status naturally vary markedly by age and sex (Table 3).

Among males, poor health or disability is the leading reason why men 35 to 61 are out of the labor force. However, retirement begins to apply to a significant portion starting with the 55 to 59 age span. And the proportion that is retired rises rapidly for each successively older segment, expanding to 83 percent for those 65 and over.

¹⁴O’Meara, 1977.

¹⁵Research & Forecasts, Inc., *Retirement Preparation: Growing Corporate Involvement*, New York, October, 1979. Abstract of findings appears in *Aging and Work*, Winter, 1980.

Table 3: Persons Not in Labor Force in 1979 by Major Reason for Nonparticipation, by Sex and Age

MALES									
Age	Total Not in Labor Force	Going to School	Ill Health	Family or Home Responsibilities	Retirement	No Desire to Work	Thinks It Impossible to Find Job	Other	
	(numbers in thousands)	(Percent Distribution)							
16 to 19.....	3,124	100.0	80.1	1.2	.6	0.0	13.8	2.1	2.2
20 to 24.....	1,275	100.0	66.1	6.5	1.0	.1	17.9	3.3	3.1
25 to 34.....	780	100.0	33.6	26.8	2.2	0.0	25.4	5.4	6.6
35 to 44.....	500	100.0	7.8	48.1	3.4	.8	31.9	3.0	5.0
45 to 54.....	940	100.0	1.8	54.9	3.5	4.5	31.2	2.1	2.0
55 to 59.....	952	100.0	.4	48.2	1.9	13.6	31.7	2.0	2.2
60 to 61.....	522	100.0	.6	40.1	2.1	35.2	19.5	.8	1.7
62 to 64.....	1,165	100.0	.1	24.4	1.8	64.0	6.6	1.5	1.6
65 and over.....	7,689	100.0	.1	9.6	2.3	82.9	3.5	.7	.7
FEMALES									
Age	Total Not in Labor Force	Going to School	Ill Health	Family or Home Responsibilities	Retirement	No Desire to Work	Thinks It Impossible to Find Job	Other	
	(numbers in thousands)	(Percent Distribution)							
16 to 19.....	3,742	100.0	67.7	.9	14.5	0.0	12.4	1.5	3.0
20 to 24.....	3,143	100.0	23.4	3.1	60.4	0.0	7.3	1.9	3.9
25 to 34.....	6,332	100.0	4.1	3.4	84.1	0.0	4.3	1.4	2.7
35 to 44.....	4,650	100.0	2.4	6.2	82.3	.8	5.0	1.8	2.3
45 to 54.....	4,892	100.0	.7	8.7	80.7	.2	5.4	1.6	2.7
55 to 59.....	3,016	100.0	.2	10.1	78.9	.7	7.3	1.0	1.8
60 to 61.....	1,235	100.0	.2	9.5	78.0	5.2	5.1	.9	1.1
62 to 64.....	2,100	100.0	.1	8.1	78.8	10.0	1.6	.7	.9
65 and over.....	12,580	100.0	.1	6.6	74.8	17.1	.8	.4	.4

^aLess than .05 percent

Source: Bureau of Labor Statistics. Percentages computed by The Conference Board from unpublished data (December 27, 1979).

Some 17 percent of the women 65 and over who were not in the labor force—and 10 percent of those 62 to 64—reported themselves to be “retired.” When these figures are integrated with labor-force participation rates, it can be estimated that today over three-fifths of the women aged 60 to 64, and nearly four-fifths of those who are at least 65 years old, are neither in the labor force nor do they consider themselves to be retired.

The preponderance of women now over 60 years of age had never been gainfully employed, had been employed only in their youth (perhaps before marriage or before raising a family), or had been employed briefly or intermittently.¹⁶ In any case, employment has not occupied a major portion of their adult lives, as it has for males. Clearly the percentage of women who, by age 60, have never been in the work force—or have been in it for only a small part of their lives—should decline appreciably in the decades ahead if larger proportions of females develop stronger, more permanent attachments to the labor force.

¹⁶According to data from the Bureau of Labor Statistics, 15 percent of the women aged 60-plus who were not in the labor force in 1979 had never worked, compared with less than 1 percent of the men in that age group. Also, women of that age who had worked at some time in their lives were considerably more likely than the men to have been out of the labor force for more than five years.

Why People Retire

Since the people retiring each year are a heterogeneous group, it follows that the impetus to conclude one's work life varies from person to person. Poor health is the single most important reason for early retirement, according to the longitudinal surveys by the Social Security Administration and the Parnes' group. (See boxes on pages 24 and 31, for a brief description of each.) They both show that at least half of the men retiring before age 65 report that health problems—whether a specific physical disability or illness or a more amorphous state of "poor health"—constitute the main reason for leaving the labor force.

When early retirees are divided into two groups—those who left the labor force when less than 62 years old and those who left at ages 62 through 64—it can be seen that the incidence of retirement because of poor health is substantially greater for the former than the latter:

Percent Who Retired for Health Reasons, by Age of Retirement¹⁷

Under 62	67%
62 to 64	42
65 to 69	24

The availability of social security retired-worker benefits beginning at age 62 largely explains this phenomenon. The latest findings from Parnes' National Longitudinal Survey show that at least half of their sample of men who had retired between the mid-1960's and mid-1970's had done so voluntarily while still in relatively good health.

Based on information from five annual surveys—conducted from 1968 through 1972 by the Survey Research Center of the University of Michigan—of a cohort of white married men aged 61 through 65 at the time of the initial survey, one analyst has concluded that relatively generous social security benefits coupled with the earnings test has been the major impetus to retirement.¹⁸ Another analyst, in a study of early retirement among white married men and nonmarried women aged 58 to 63 (based on data from the 1969 interviews of the Retirement History Study), finds that health, the eligibility for social security benefits, and other pension benefits are the major factors in the decision to retire early.¹⁹ He concludes that the

¹⁷Herbert S. Parnes and others, *From the Middle to the Later Years: Longitudinal Studies of the Preretirement and Postretirement Experiences of Men*. Center for Human Resource Research, The Ohio State University, 1979. A revised version, *Work and Retirement: A Longitudinal Study of Men*, will be published in 1981 by The MIT Press, Cambridge, Mass.

¹⁸Michael J. Boskin, "Social Security and Retirement Decisions," *Economic Inquiry* (Journal of the Western Economic Association), January, 1977.

¹⁹Joseph F. Quinn, *The Early Retirement Decision: Evidence from the 1969 Retirement History Study*, Social Security Administration, Staff Paper No. 29, 1977.

The Parnes' Study

Under the direction of Herbert S. Parnes (Center for Human Resource Research of The Ohio State University), National Longitudinal Surveys of a cohort of middle-aged men have been conducted at one- or two-year intervals since 1966. They track the labor market behavior and retirement experience of a representative sample of men aged 45 to 59 at the time of the initial interviews. Collection of the data by the U.S. Bureau of the Census and the analysis of the data by the Parnes' group are funded by the Employment and Training Administration of the U.S. Department of Labor.

So far five volumes have been published. The fifth one, issued in 1980, presents findings for the 10-year interval from 1966 to 1976. The attrition rate for the sample—the proportion of the initial number who have died, who could not be located by the Census enumerators, or who refused to be interviewed—was smaller than expected. By the 1976 survey, the respondents interviewed represented 69 percent of the 5,518 men in the original group. A survey was also conducted in 1978 and two more sets of interviews are scheduled for 1980 and 1981.

availability of such benefits does encourage older workers—those in good health as well as those with health problems—to leave the labor force, but the attraction for those in poor health is far stronger. He also finds that size of income from assets is positively correlated with the retirement decision. Two of Quinn's other findings are: The incentive to retire is lower in areas where unemployment rates are relatively low, or, conversely, where demand for labor is comparatively vigorous; and, the less satisfied workers were, the more likely they were to retire early.

Growing Preference for Retirement

Quite unmistakably, more and more older persons have been *voluntarily* choosing retirement—without being prodded by failing health, or being coerced in any way by either mandatory retirement policies of employers, or through failure to find a job after an extended period of unemployment. According to the latest published findings from the Parnes' surveys, health problems accounted for approximately half of the retirements (51 percent) during the decade of 1966-1976.²⁰ During that ten-year interval, nearly half (46 percent) had left the labor force voluntarily.²¹ Only 3 percent of the respondents were "forced out"—that is, they had retired at their firms' mandatory retirement age and had indicated in interviews prior to retire-

²⁰Parnes and others, 1980.

²¹Voluntary retirees, as defined in the Parnes' study, include those retirees who had not indicated that their retirement was due to health limitations and were not forced to retire under a mandatory retirement policy (either their company had no such policy; or if their company had such a policy, they retired before the mandatory age, or they retired at the mandatory age but had no desire to work beyond that age).

ment that they would prefer to work beyond that age. Even when the respondents are restricted to retirees aged 65 and over, only 5 percent left unwillingly because of mandatory retirement rules. Parnes and Nestel conclude that the lifting of the permissible mandatory retirement age to 70 is not likely to keep substantially larger numbers of persons in the labor force beyond the age of 65. The conclusion that the new legislation is not likely to have a disruptive impact on the aggregate supply of labor is consonant with the assessment of other economists and personnel administrators (see above, page 26).

The high proportion of voluntary retirements is a rather recent phenomenon. For example, nine surveys conducted by the Social Security Administration between 1941 and 1963 found that only a small portion of respondents retired voluntarily while still in good health because they preferred leisure to work—ranging between 4 and 6 percent in the eight surveys between 1941 and 1951, and rising in the 1963 survey to 17 percent.²² The latter, while still not a large share, is substantially greater than in the previous years surveyed. An additional small group of respondents—ranging from 6 to 9 percent in all nine surveys—had also left their jobs voluntarily and without any indicated health problems but for reasons other than the preference for leisure. These reasons included dissatisfaction with working conditions, expectation of being laid off, and interest in finding a part-time job or different kind of work. The proportion who retired voluntarily for reasons other than poor health, ranged between 10 percent and 13 percent in the surveys taken between 1941 and 1951, and was 26 percent in 1963. Among the remaining respondents, who constitute the overwhelming majority, most had left their last employment because of ill health. For others, loss of job through layoff, compulsory retirement, or discontinuance of job were the reasons given for termination of last employment.

These trends strongly suggest that a sizable segment of older persons who continue to work do so out of financial necessity. Is income the salient, if not the only, incentive for remaining in the labor force for the majority who work beyond 65, or 60—or even younger? "The fact that a high proportion of all workers, blue collar, white collar, and managerial, elect to retire from employment as soon as they become eligible for full pension, and that a not inconsiderable number do so even at reduced benefit levels without later returning to any type of paid employment speaks to the acceptance, if not enthusiasm with which the predominant group in the citizenry has been willing to sever its ties to work."²³

²²Edna C. Wentworth, *Employment After Retirement*. Social Security Administration, Research Report No. 21, Washington, D.C.: 1968. The samples surveyed consisted of male recipients of social security retired-worker benefits who had left their last employment two to five years before the survey date in the 1963 survey and one to three years before in the other eight surveys.

²³Dean Morse, *The Utilization of Older Workers*, Special Report No. 33 of the National Commission for Manpower Policy, Washington, D.C.: March, 1979, p. 66.

Of course, the growth in the proportion of older workers choosing to retire is not necessarily an indication that work has become increasingly distasteful.²⁴ It probably reflects workers' rising expectations for job satisfaction together with more options open to many of them on the threshold of retirement than had been available to their parents and grandparents. A generation or more ago, economic necessity usually precluded retirement—not only before age 65 but often even at 65 or older if the individual was able to work.

Occupation and Propensity to Retire

A fairly clear relationship exists between occupation and the rate of retirement. The finding from the 1975 interviews of the Parnes' study is that men in blue-collar occupations—laborers, operatives and craftsmen—tend to retire earlier than those in white-collar jobs—professional and technical workers, managers and salespersons.²⁵ A similar pattern emerges from the Social Security Administration's 1969 interviews for the Retirement History Study (Chart 7).

This tendency is mainly the consequence of two influences. First, the incidence of poor health is higher among blue-collar workers, particularly farmers and laborers, than among white-collar workers.²⁶ Also, disabilities may have a stronger effect on workers whose jobs are more strenuous physically. For example, some back injuries or heart conditions would leave a longshoreman or a house painter unable to function but would not necessarily seriously affect the performance of an engineer or a bookkeeper. Second, attitudes toward work may also explain some of the differences. It seems reasonable to assume that people in less arduous—intrinsically more interesting—jobs where working conditions are congenial, tend to have a stronger work commitment than those whose jobs are physically enervating, or monotonous, or who work in unpleasant surroundings.

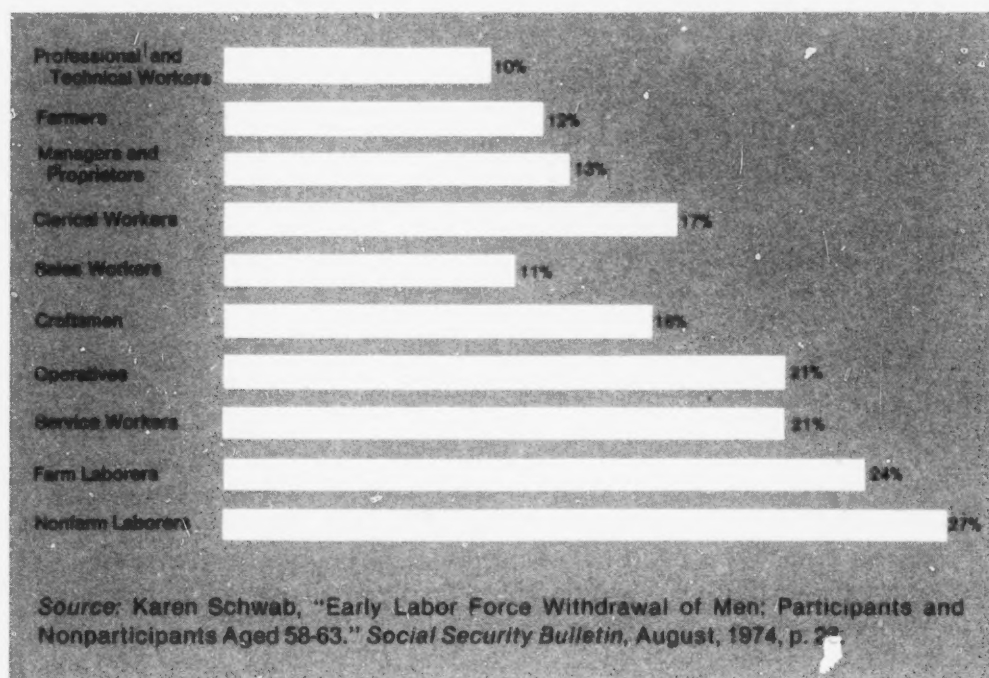
The relatively high proportion of sales workers who remain in the labor force, not only beyond age 60 but even beyond 65, reflects the nature of retail trade. First, it is a business with decided peaks and valleys in demand—on a daily, weekly and even seasonal basis—which means that part-time and intermittent work are quite common. Second, mandatory retirement policies are not widely prevalent in the retail business where

²⁴Many arduous jobs have been eliminated or have become less physically demanding and the physical environment of the work place has, on balance, improved considerably over the last few decades.

²⁵From special tabulations produced for The Conference Board by Gilbert Nestel (Parnes Group) from their data tapes.

²⁶Parnes and others, 1980.

Chart 7: Proportion of Men Aged 58 to 63 Who Were Out of the Labor Force in 1969, by Occupation of Longest Job



people not only often stay on after 65, but where the hiring of persons over 65 is not uncommon.

Gradual Retirement

Preliminary findings from the Retirement History Study of the Social Security Administration do not support a widely held impression that gradual retirement makes for better adjustment.²⁷ Based on the responses of men who withdrew from the labor force between 1969 and 1973, those who had retired gradually were no happier in retirement than those who had retired abruptly. Moreover, this finding applies to persons with strong attachments to work as well as to those with weaker attachments. (Gradual retirement, for that study's purpose, was defined as the transition from full-time work in 1969 to complete retirement by 1973 with a period of part-time work in between. Part-year work is not included. Abrupt retirement refers to the shift from full-time work to complete retirement during that four-year interval with no interim period of part-time employment.)

²⁷Karen A. Schwab (Social Security Administration), "Gradual Retirement and Adjustment in Retirement," paper prepared for the 30th annual meeting of the Gerontological Society, San Francisco, November, 1977.

Gradual retirement is not very common. Only 9 percent of the men in the sample who retired between 1969 and 1973 had done so gradually. Easing into retirement through a transitional stage of part-time employment was more prevalent among the self-employed, who have greater latitude in arranging their work schedules for their own convenience, than among wage and salary workers. The figures are 22 percent and 8 percent, respectively. Farmers and farm workers showed a considerably higher incidence of gradual retirement (28 percent) than any other occupational category. This probably reflects mainly the large proportion of self-employed farmers; also part-time work is a more traditional practice on farms than it is in most nonagricultural industries. Managers and proprietors constitute another occupational group with a relatively high incidence of self-employment—although not as high as farmers—and also a higher than average proportion of gradual retirees (12 percent).

Based on the popular belief that work is more likely to be both intrinsically satisfying and central in the lives of professionals than in the lives of blue-collar workers, it would be expected that a greater proportion of the former would approach retirement by degrees rather than precipitously. However, this was not borne out by the data from the Retirement History Study, which showed that only 5 percent of the professional and technical workers chose gradual retirement, compared with 9 percent of the operatives and 10 percent of the service workers and laborers. It is not known to what extent the low incidence of tapered withdrawal from the labor force by professionals reflects the relative paucity of part-time jobs for those not self-employed. Next to professional and technical workers, the smallest proportion of gradual retirement was shown by craftsmen (6 percent) and clerical and sales workers (7 percent).

The incidence of gradual retirement was also found to be higher among low earners than among middle or high earners. This suggests that tapering off from work instead of quitting abruptly is probably more often motivated by need for additional income than by a preference for easing into retirement. When the respondents were divided into three income levels, it was found that within each income group those who retired abruptly were as happy or happier than those who retired gradually.

Schwab's findings are both interesting and useful. It would help enormously, however, to have more detailed information about the choice to retire abruptly or gradually. For example, what kind of part-time jobs were held—was it the same kind of work as the full-time job, for the same employer or a different employer, in the same occupation or a different occupation? What was the motivation for working part time—preference for a full-time job but inability to find one; need for money; desire to ease into retirement gradually; or health problems which make full-time work too enervating? Also, how long did the part-time employment last—a few months or three or four years? What proportion of those who retired abruptly would have preferred part-time work but were unable to find it?

Does the small proportion of professionals who had gone from full-time to part-time employment before retiring reflect in some measure the greater scarcity of part-time jobs for an engineer or a social worker than for a carpenter or a waiter?

Schwab cautions that the finding that gradual retirement does not appear to improve adjustment to retirement is based on tentative evidence and further research would be necessary before it could be substantiated. She also concludes that even if additional study should confirm the finding, that would not automatically preclude the usefulness of gradual retirement programs since they undoubtedly fill a need for many people—including those with low income or with limited interests outside of work.

Assessment of the Retirement Experience

A common impression that a substantial proportion of retirees are unhappy with retirement is debunked by the Parnes' findings. While the degree of contentment expressed by retired respondents is considerably lower than it is for those who were still employed, a very different picture emerges when the men who left the labor force because of poor health are eliminated from the data. A comparison of healthy retirees with men still working shows very little difference in how happy they are about various aspects of their lives and their assessment of "things overall" (Table 4). It is perhaps not unexpected that a greater proportion of healthy retirees showed

Table 4: Degree of Satisfaction with Various Aspects of Life, Retirees versus Nonretirees with 12 Years of Education, 1976

Measure	Very Happy			Somewhat or Very Unhappy		
	Non-retirees	Retirees	Healthy retirees ¹	Non-retirees	Retirees	Healthy retirees ¹
Number of respondents . . .	503	299	185	503	299	185
How happy are you with:						
Your housing	70%	67%	72%	5%	8%	6%
Your local area	68	64	66	7	10	8
Your health condition . . .	59	47	62	10	29	11
Your standard of living . . .	62	54	59	5	11	8
Your leisure time activities	54	57	65	10	13	8
Things overall	59	51	60	4	10	6

¹Includes all retirees except those classified as having retired for health reasons.

Note: The percent of each of the three groups (nonretirees, retirees and healthy retirees) that responded "somewhat happy" about the six aspects of life is not shown.

Source: Herbert S. Parnes and others, *From the Middle to the Later Years: Longitudinal Studies of the Preretirement and Postretirement Experiences of Men*. Center for Human Resource Research, The Ohio State University, 1979, p. 202. A revised version, *Work and Retirement: A Longitudinal Study of Men*, will be published in 1981 by The MIT Press, Cambridge, Mass.

Table 5: Proportion of Retirees Very Happy with Selected Aspects of Life in 1976, by Reason for Retirement

Measure	Total	Forced out	Health	Voluntary		
				Total	Early	Normal
Number of respondents .	1,584	50	777	754	526	228
Housing	67%	66%	61%	73%	71%	78%
Local area	68	58	65	72	70	77
Health	39	59	18	57	55	61
Standard of living	49	55	35	61	61	62
Leisure activities	52	59	38	66	65	66
All things considered . . .	51	51	40	61	59	67

Source: Herbert S. Parnes and others, *From the Middle to the Later Years: Longitudinal Studies of the Preretirement and Postretirement Experiences of Men*. Center for Human Resource Research, The Ohio State University, 1979, p. 203. A revised version, *Work and Retirement: A Longitudinal Study of Men*, will be published in 1981 by The MIT Press, Cambridge, Mass.

a high degree of satisfaction with their leisure-time activities than did the men who were not retired.

Among all retirees, the Parnes' findings show that the men who retired voluntarily—either early or at 65 or older—tend to be happier than those in the relatively small group that was “forced out” through mandatory retirement policies at their last place of employment. The least content are those who retired because of ill health (Table 5).

Work after Retirement

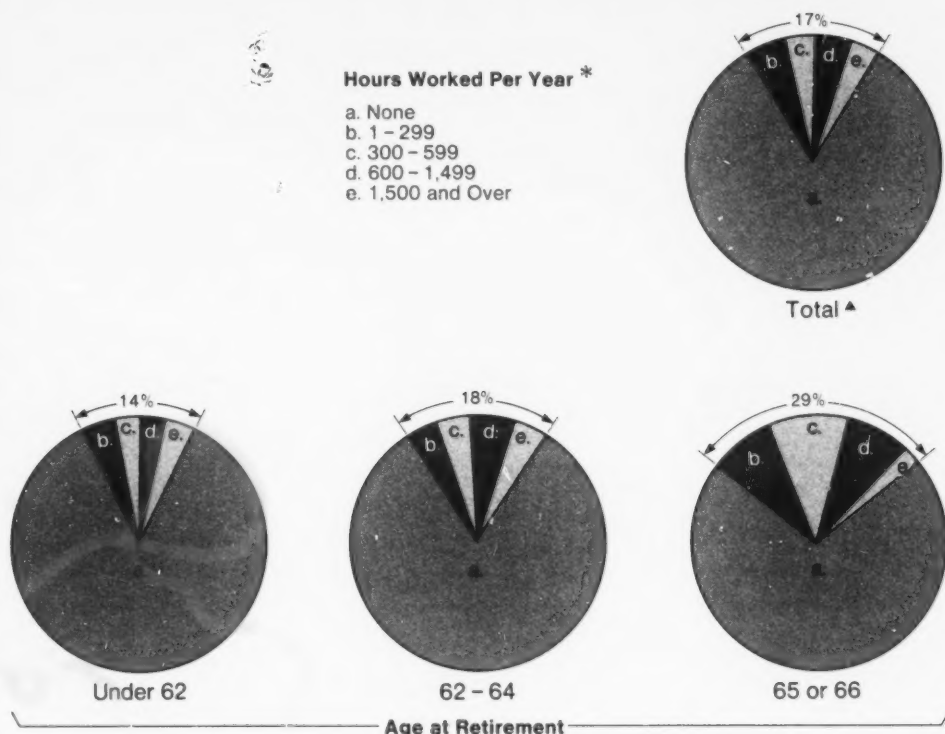
While there are still many gaps in our knowledge of the role gainful employment plays in the lives of people who have formally retired, much pertinent information already exists. The strong implication of these data is that, once retired, most persons stay retired. Further, those who do go back to work tend to work part time or part of the year.

For example, the Parnes' study shows that 17 percent of the men who had retired were working one or two years after they had retired (Chart 8). Moreover, those who retired early were less likely to have worked after retirement than those who had retired at the age of 65 or 66 (the age of the oldest men in the sample as of 1973).²⁸ This finding is probably explained mainly by differences in the reasons for leaving the labor force.

Some of the respondents who had retired at 65 and over did so only because of mandatory retirement provisions in their pension plans, and who would have preferred to work for additional income or for the sheer

²⁸Based on the responses of those men interviewed between 1966 and 1975 who had reported themselves “retired” in at least one of the survey years prior to 1975.

Chart 8: Extent of Employment One or Two Years After Retirement



[▲] Universe consists of men (aged 45 to 59 in 1966) who reported themselves "retired" in at least one of the survey years between 1966 and 1973.

*Hours worked one or two years after retirement.

Source: Parnes' study, derived for The Conference Board by Gilbert Nestel (Parnes Group) from unpublished data.

satisfaction derived from work. In either case, they appear to be more likely to have reentered the labor force than those who left before 65, since mandatory retirement rules rarely apply to that age group. Inasmuch as the vast majority of persons who retired before 65 did so either out of choice or because of disability, they would be less likely candidates for post-retirement employment.

Also, for those who did return to the labor force, the job held after retirement was almost as likely to be in the same occupation as the preretirement job as in a different one. According to the findings of the 1976 Parnes' interviews, 45 percent of the respondents who were employed in 1976—after having retired at some time between 1967 and 1975—were in the same occupation, compared with 55 percent who had a different one. Of those in a different occupation, half were employed in one with lower status than their preretirement employment while the other half was about equally divided between persons in an occupation with the same status or lower status.

While men who retired at 65 or 66 were more likely to have gone back to work than their under-65 counterparts, they were also more likely to be employed less than 600 hours per year, as Chart 8 shows. (This translates into less than 17 weeks of full-time work, or an average of less than 12 hours per week spread over the entire year.) Relatively small proportions of both age groups were working full time, year round or close to it—at least 1,500 hours per year, or an average of 30 hours per week.

Another indicator of the extent of work activity after retirement is provided by data, prepared by the Social Security Administration from its master beneficiary record, that show the proportion of retired-worker beneficiaries who lost part or all of their benefits in 1975 because of the annual earnings test.²⁹ In 1975, 17.5 percent of the male and 9.8 percent of the female recipients of retired-worker benefits were affected by the earnings test.³⁰ The inference, as Lingg, a statistician with the Social Security Administration, points out, is that a smaller proportion of female than male beneficiaries worked, and, of those who did, a larger proportion of women than men had earnings low enough to be exempt. Of those who had benefits withheld, four out of ten men and two out of ten women lost all their benefits.

Beneficiaries aged 65 to 71 were more likely to have had some benefits withheld than those who were 62 to 64. (This finding corresponds to the information obtained from the Parnes' study.) Among the social security beneficiaries who have been affected by the earnings test, the 65 to 71 age group was far more likely to have lost all benefits than the 62 to 64 group (Chart 9). This would seem to contradict the Parnes' data, which showed that the older group on the average worked fewer hours than the younger group. However, among social security beneficiaries who work, it may be that a larger proportion of the 65 to 71 age group than of the 62 to 64 age group are not affected by the earnings test.

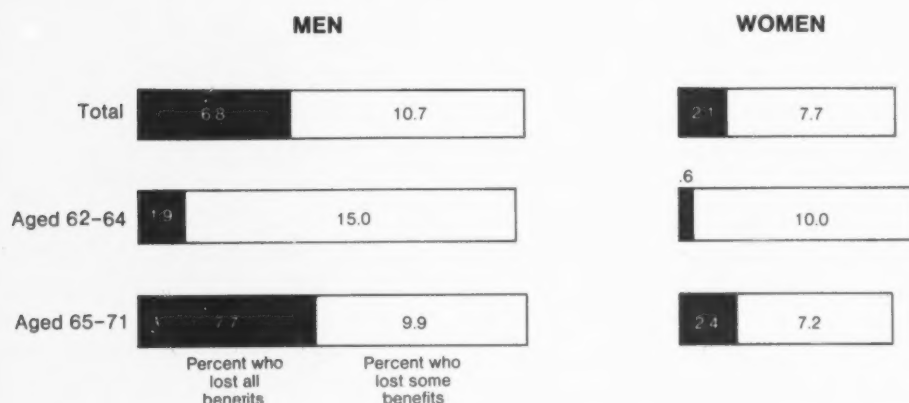
The overwhelming majority of retirees who are not gainfully employed apparently are not interested in going back to work. Data from BLS (Bureau of Labor Statistics) show that, in 1979, only 3 percent of the men 60 years old and over who were out of the labor force intended to look for work within 12 months after they were interviewed. The comparable figure for women of that age was less than 2 percent.

Data on job-seeking intentions of the men in the Parnes' study in 1976 (when they were 55 to 69 years old) present a very similar picture. Only 3 percent of them indicated that they would "definitely" or "probably" seek

²⁹In 1975 social security beneficiaries under age 72 had \$1.00 of benefits withheld for every \$2.00 of earnings in excess of \$2,520.

³⁰Barbara A. Lingg, "Beneficiaries Affected by the Annual Earnings Test in 1975," *Social Security Bulletin*, December, 1978.

Chart 9: Retired-Worker Beneficiaries Under Age 72 on Rolls at Year-End 1975 and Affected by Earnings Test



Source: Barbara A. Lingg, "Beneficiaries Affected by the Annual Earnings Test in 1975." *Social Security Bulletin*, December, 1978.

work within 12 months of the interview. Another 5 percent said "perhaps" or "don't know," while the overwhelming majority (92 percent) responded "no."

It may be that a sizable proportion of those who had no intention of looking for a job were acting out of the belief that their chances of finding work were impossible or, at best, remote—the discouraged worker phenomenon. However, the responses to another question put to the retired men in the 1976 interviews of the Parnes' study invalidates that inference. When asked whether they would take a job if it were offered, still only 3 percent answered with an unconditional "yes," another 13 percent with a conditional "yes"; the remaining 84 percent said "no"—half for health reasons; the other half for a variety of other reasons.

Still another national survey, conducted by Louis Harris and Associates in August, 1978, also found that the vast majority of retirees (81 percent) were not employed, while only 5 percent were working full time and 8 percent part time.³¹ However, the Harris survey found that 42 percent of the retired persons would prefer to work. This is a substantially higher percentage than was derived by the Parnes' survey. It is understandable that the proportion of retirees who would be interested in working in 1978 might, as a consequence of two additional years of high inflation, be somewhat larger than it was in 1976 (the date of Parnes' survey), but not that much greater.

³¹Louis Harris and Associates, Inc., *1979 Study of American Attitudes toward Pensions and Retirement*. (Commissioned by Johnson and Higgins, New York, 1979.) Five percent of the remaining 6 percent of retirees stated their employment status as "housewife" and the remaining 1 percent were either described as "student" or "other."

However, the BLS data on the job-seeking intentions of the 60-and-over population that was not in the labor force in 1979 evidently reinforce the Parnes' findings.

It is not likely that the difference in age and sex composition between the Parnes' and Harris studies would account for such dissimilar findings. The Parnes' sample consisted of retired men who were 55 to 69 years old in 1976, while the Harris sample consisted of retired persons—men *and* women—who were 65 years old and over in 1978. While the former may contain a somewhat higher percentage who retired because of ill health, the latter includes persons 70 and over, who are probably less likely to want to work than those in their 60's. Also, the inclusion of women in the Harris survey is not the explanation for the larger proportion interested in working. The BLS data strongly corroborate this inference (see page 39). Whether the proportion of retired persons who would like to work is rather small, as indicated by Parnes and BLS data, or whether it constitutes a substantial minority as shown by the Harris data, is yet to be determined.

Chapter 4

Income After Retirement

FROM THE EARLY 1950's to the latter part of the 1960's the gain in the median income of retirees lagged behind that of the working population. However, from 1967 to 1976 (latest data available), median income of OASI beneficiaries aged 65 and over considerably more than doubled for all groups (Chart 10). Even in constant dollars, their median incomes showed substantial increases—from between 30 and almost 50 percent. The rise in median income of all U.S. families from 1967 to 1976, in constant dollars, was 10 percent.

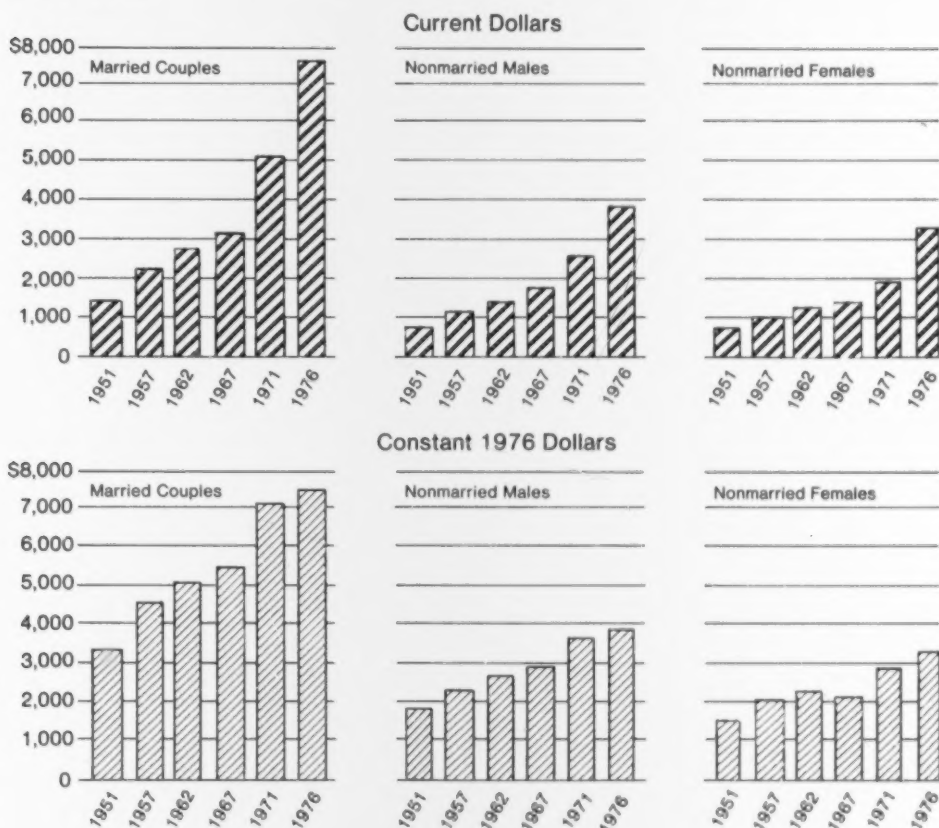
Especially rapid income gains by retirees were registered during the five years 1968 through 1972, reflecting four sizable increases in social security benefits legislated by Congress in that interval.¹ By December, 1972, monthly social security benefits for retired workers averaged \$162, compared with \$85 for December, 1967—a jump of 90 percent and far beyond the 25 percent rise in consumer prices and the 34 percent rise in average weekly earnings in private nonagricultural industry during that five-year period (Chart 11). In terms of purchasing power, average social security benefits rose just over 50 percent from 1967 to 1972 compared with 7 percent for earnings. An ad hoc increase in social security benefits in 1974 restored most of the purchasing power lost through inflation during the preceding two years. Beginning in 1975, annual increases have been indexed to the CPI (Consumer Price Index).

Sources of Income

Social security benefits constitute the prime source of income for most retirees. For beneficiaries aged 65 and over in 1976, social security benefits accounted for at least 50 percent of the total income for over half of the

¹The across the board increases were: 13 percent in 1968; 15 percent in 1970; 10 percent in 1971; and 20 percent in 1972.

Chart 10: Median Money Income of OASI Beneficiaries Aged 65 and Over, 1951 to 1976

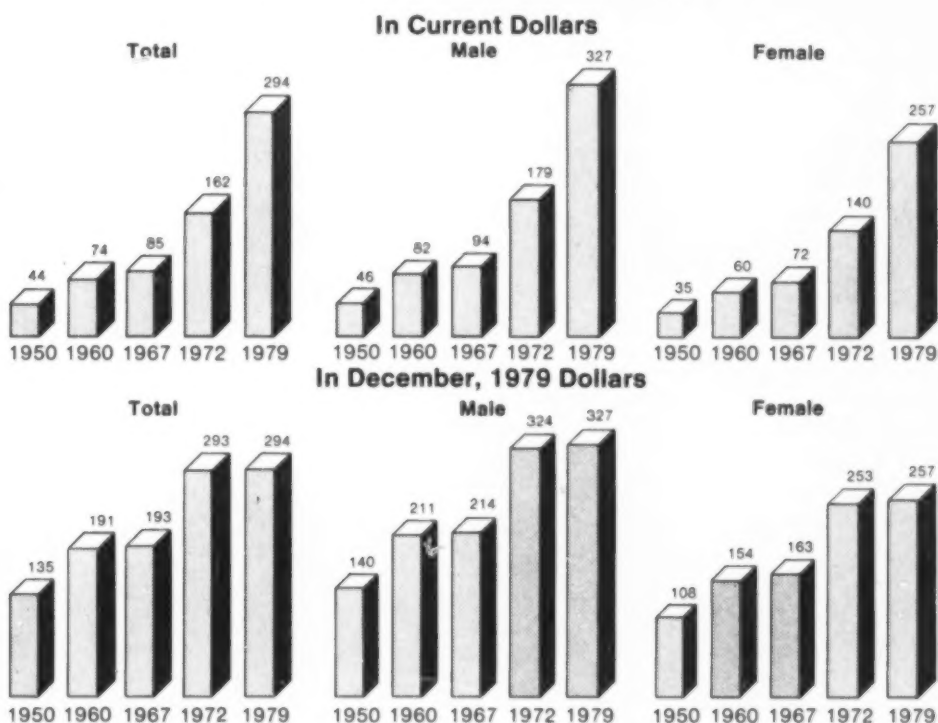


Source: Social Security Administration. For 1951, 1957 and 1962 data, Research Report No. 34, *Resources After Retirement*, 1970. For 1967 data, Research Report No. 45, *Demographic and Economic Characteristics of the Aged: 1968 Social Security Survey*, 1975. For 1971 data, Staff Paper No. 26, *Income of the Population Aged 60 and Older*, 1971; and unpublished detail on type of pensions received. Cited in U.S. Office of Management and Budget, *Social Indicators 1976*, December 1977. 1976 data from Susan Grad and Karen Foster, *Income of the Population, 55 and Older*, 1976, Staff Paper No. 35, Social Security Administration, December, 1979. Authors derived the data from the Bureau of the Census, March, 1977, *Current Population Survey*. Constant 1976 dollar values computed by The Conference Board.

married couples and for nearly three-fourths of nonmarried persons. Moreover, a goodly minority of elderly people derived at least 80 percent of their total income from social security (Table 6).

Among the aged, there tends to be an inverse relationship between the share of income from social security and total income. According to a statement made in 1978 by former HEW Secretary Califano, some 60 percent of the 65-plus population would have had incomes below the poverty line in

Chart 11: Average Monthly Social Security Retired-Worker Benefits in Current Payment Status in December of Selected Years, by Sex



Source: Social Security Administration, *Social Security Bulletin, Annual Statistical Supplement*, 1976. December, 1979 from unpublished data (April, 1980). Data were converted into December, 1979 dollars by The Conference Board from the Bureau of Labor Statistics' Consumer Price Index.

1976 had there been no social security system.² The actual poverty rate in 1976 for persons aged 65 and over was 15 percent.

The substantial rise in the number of retirees with second pensions (private pensions or annuities, government employee pensions, and railroad retirement) in addition to social security has, of course, contributed importantly to retirees' gains in income. The proportion of married couples receiving retirement pensions in addition to social security benefits soared from 28 percent in 1962 to 46 percent in 1976; for nonmarried persons it rose from 13 percent to 24 percent in that 14-year span (Table 7). However, married couples are still twice as likely as single persons to have second pensions in addition to social security.

Single men are twice as likely as single women to have income from

²Hearings before the Special Committee on Aging, United States Senate on *Retirement, Work, and Life-long Learning*, Part I, July 17, 1978.

Table 6: Social Security Benefits as a Percentage of Total Income of Social Security Beneficiaries Aged 65 and Over, 1976

Percent of Income from Social Security Benefits	Percent of Married Couples	Percent of Nonmarried Persons
1-19%	12%	4%
20-39	20	12
40-59	24	22
60-79	21	19
80 or more	23	43
	100%	100%
50 or more	56	73
90 or more	18	34

Source: Susan Grad and Karen Foster, *Income of the Population, 55 and Older, 1976*, Staff Paper No. 35, Social Security Administration, December 1979. Authors derived the data from the Bureau of the Census, March, 1977, *Current Population Survey*.

private pensions. For one thing, a substantial number of women, as already stated, were never, or too briefly, employed to qualify for either social security retired-worker benefits or private pensions. (Most of the single female OASDI beneficiaries are widows receiving survivors' benefits.) Secondly, even though many of the women had fairly long-term attachments to the labor force, and are OASDI beneficiaries by virtue of receiving social security retired-worker benefits, they were more likely than the men to have interrupted work histories and not to have been with any one employer long enough to qualify for a pension from any private plan.

Earnings Replacement Rates

The earnings replacement rate—retirement benefits (social security and private pension benefits) received in the first year following retirement as a percentage of preretirement earnings—has also risen substantially. (Throughout this section on replacement rates, "preretirement earnings" refers to the average of the three highest years of the ten before the husband's first social security payment. The three highest years for steady workers are generally those immediately preceding retirement.)

According to the most recently published data from the Social Security Administration's RHS (Retirement History Study), the replacement rate averaged 41 percent for married couples without a second pension where the husband's first benefits started between 1968 and 1970 (Table 8).¹ For those

¹Alan Fox, "Work, Retirement Patterns, and Replacement Rates of Married Couples: Findings From the Retirement History Study," *Social Security Bulletin*, January, 1979. Fox points out that the majority of men are married at the time they retire. Therefore, it is more realistic to look at the replacement rates of married couples which includes the earnings and benefits of the wives.

Table 7: Income Sources by Sex, Marital Status, and Social Security Beneficiary Status: Percent of Aged Units 65 and Older with Money Income from Specified Sources, 1962 and 1976

Income Source	All Units		Married Couples ^a		Nonmarried Persons					
	1962	1976	1962	1976	Total		Men		Women	
	1962	1976	1962	1976	1962	1976	1962	1976	1962	1976
OASDI Beneficiaries										
Number (in thousands).....	8,647	15,340	3,743	6,125	4,904	9,215	1,490	2,049	3,414	7,166
Percent of units with—										
Retirement pensions.....	100	100	100	100	100	100	100	100	100	100
Social security ^b	100	100	100	100	100	100	100	100	100	100
Railroad retirement.....	2	2	2	3	2	2	1	2	2	2
Government employee pensions.....	5	9	6	12	4	7	4	7	4	7
Private pensions or annuities.....	13	21	20	31	7	15	13	23	5	12
Earnings.....	36	24	50	38	26	14	24	18	27	13
Income from assets.....	59	57	65	67	55	51	50	44	57	53
Public assistance.....	8	10	6	5	9	12	10	13	9	12
Veterans' benefits.....	11	6	14	6	8	6	11	8	7	6
Nonbeneficiaries										
Number (in thousands).....	4,466	1,961	1,120	674	3,346	1,307	803	304	2,543	1,003
Percent of units with—										
Retirement pensions.....	16	33	25	34	12	32	16	36	11	31
Social security ^b	—	—	—	—	—	—	—	—	—	—
Railroad retirement.....	8	13	12	15	6	13	8	16	6	12
Government employee pensions.....	6	14	11	14	5	14	6	13	4	15
Private pensions or annuities.....	2	7	3	8	1	7	3	7	1	7
Earnings.....	31	39	64	68	19	24	31	35	16	21
Income from assets.....	43	47	62	64	37	38	34	41	38	37
Public assistance.....	27	24	14	10	31	31	35	22	30	34
Veterans' benefits.....	9	5	14	4	7	5	12	5	5	5

^aA married couple receives income from a specified source if one or both spouses are recipients of that source.

^bSocial security beneficiaries may be receiving retired-worker benefits, dependents' or survivors' benefits, or disability benefits. A breakout by each type of beneficiary is not available. Since disability benefits cease when beneficiary reaches 65, it can be inferred that for virtually all of the couples at least one of the spouses receives retired-worker benefits; the other spouse may be a recipient of either retired-worker benefits or dependents' or survivors' benefits. Of the nonmarried persons, the women, who constitute slightly more than three-quarters of the total, are probably more likely to be receiving survivors' benefits rather than retired-worker benefits but there is probably a substantial proportion of the latter as well. The nonmarried men, who constitute slightly less than a quarter of the total nonmarried persons, are probably almost entirely beneficiaries of retired-worker benefits with perhaps a nominal proportion receiving survivors' benefits. Hence, the bulk of the units aged 65 and over who are recipients of social security—perhaps close to three-fourths—are recipients of retired-worker benefits.

Source: 1962 data from Susan Grad, *Income of the Population Aged 60 and Older, 1971*, Social Security Administration, Staff Paper No. 26, Table 10. Ms. Grad derived data from the March, 1963 (CPS) Current Population Survey of the Bureau of the Census and the Social Security Administration's Master Beneficiary Record; 1976 data from the 1977 CPS by Susan Grad and Karen Foster, *Income of the Population, 55 and Over, 1976*, Staff Paper No. 35 of the Social Security Administration.

couples with a second pension—private or public—the replacement rate averaged 50 percent. The comparable rates for couples where the husband retired in 1973 or 1974 had expanded to 49 percent and 62 percent, respectively. The bulk of the gain in replacement rates occurred from 1968 to 1972 when the greatest increases in social security benefits took place.

Not only were replacement rates higher for couples with second pensions, but so were their preretirement incomes. Therefore, on the average, the relative spread between the incomes of couples with second pensions and those without was even greater after retirement than before. For couples where the husband retired in 1973 or 1974 and had a second pension, median preretirement earnings were \$11,315 compared with \$7,905 where there was no second pension. Since the median replacement rate in those two years was 62 percent for couples with a second pension and 49 percent for those with only social security benefits, it can be estimated that their median

Table 8: Earnings Replacement Rates of Couples, by Wife's Type of Benefit, 1968 to 1974

Year Husband's Benefit First Paid	With No Second Pension			With Second Pension		
	Total	Retired worker	Dependent's	Total	Retired worker	Dependent's
<i>Median Preretirement Earnings¹</i>						
1968-1970	4,640	6,400	3,870	10,210	11,340	8,680
1971-1972	6,275	8,300	5,370	10,815	12,620	8,920
1973-1974	7,905	8,800	7,500	11,315	13,095	10,345
<i>Median Social Security Replacement Rate²</i>						
1968-1970	41	38	44	28	27	30
1971-1972	48	45	53	37	35	41
1973-1974	49	47	53	41	38	44
<i>Median Total Replacement Rate³</i>						
1968-1970	41	38	44	50	49	53
1971-1972	48	45	53	61	59	64
1973-1974	49	47	53	62	61	64

¹Estimated total earnings in highest three years.

²Couple's combined social security benefit as a percent of combined estimated total earnings in highest three years.

³Couple's combined social security and second-pension benefits, if any, as a percent of combined estimated total earnings in highest three years.

Source: Alan Fox, January, 1979.

retirement incomes were around \$7,015 and \$3,875, respectively. Hence, couples with second pensions had replacement rates that averaged some 25 percent higher than those without second pensions, but their actual retirement income averaged 80 percent higher than the latter.

Recently retired persons tend to be better off economically than those who have been retired for many years. Over the years, increasing proportions of retirees have become recipients of private pension benefits. Further, the purchasing power of the portion of income that is fixed—not adjusted to reflect increases in the cost of living—has progressively diminished through inflation. Finally, reflecting higher earnings during their work life, recent retirees are more likely than earlier retirees to have accumulated other assets, including savings.

Since replacement rates are figured on a pretax basis, they tend to understate the purchasing power of earnings replacement from retirement benefits. Preretirement earnings are substantially reduced by the subtrac-

tion of the federal income tax, state and local income taxes in many jurisdictions, and the social security payroll tax. However, social security benefits are not taxed at all and only part of most private pensions are taxed (that part representing the employer's contribution, since the employee's contribution already had been taxed as earnings during the retiree's work life).

Fox points out that information from the Social Security Administration's 1970 Survey of Newly Entitled Beneficiaries shows that total replacement rates for retirees with a private pension, in addition to social security benefits, averaged some 10 percentage points higher when federal income tax and social security payroll tax are deducted from preretirement earnings and the federal income tax is subtracted from private pension benefits. For those retirees without private pensions, the aftertax replacement rate averaged 5 percentage points higher. While aftertax calculations have not been made for the RHS sample, it can be assumed that the proportion of the purchasing power of the preretirement earnings that is replaced by retirement benefits is higher than the replacement rates shown in Table 8 above.

Optimum Replacement Rates

What replacement rate would give retirees a level of income that would be equivalent to preretirement purchasing power? Two economists who have explored this question have both concluded that retaining the same standard of living in retirement as before requires an income of 65 to 80 percent of preretirement income.⁴ The basis for this estimate is that—for the bulk of retirees—lower taxes and elimination of expenses associated with working range between 20 and 35 percent of gross preretirement income.

Based on the information on replacement rates from the RHS, it may be inferred that the majority of couples without a second pension probably experience a marked decline in their standard of living after retirement unless they have assets that yield significant income or on which they can draw. For those retired couples with a pension in addition to social security, maintenance of preretirement standard of living is far more feasible.

It is important to emphasize that replacement rates represent a comparison of income before retirement with the *first year* after retirement, and not the entire retirement span. For those retirees with private or public pensions that do not provide cost of living allowances, years of inflation can erode the real replacement rate (calculated in constant dollars).

Inflation and Retirement Benefits

While social security retired-worker benefits are raised annually to reflect

⁴Alicia H. Munnell, *The Future of Social Security*. Washington, D.C.: The Brookings Institution, 1977; Robert L. Clark, "Components of Retirement Income and Their Importance," prepared statement for Hearings before the Subcommittee on Retirement Income and Employment of the Select Committee on Aging, U.S. House of Representatives, *National Pension Policies: Private Pension Plans*, March 13, 1978.

increases in the CPI, such automatic cost-of-living adjustments (COLA's) are seldom provided in private pension plans. A Conference Board survey in late 1972 and 1973 of employee benefit practices in some 1,800 firms showed that only 4 percent of the private plans provided that benefits be adjusted to increases in consumer prices.⁵ Moreover, preliminary analysis of a comparable Conference Board survey conducted in mid-1979 reveals that cost-of-living adjustments had not become more common in that interval of six-and-a-half years—only 4 percent of the companies that responded had such a practice—unchanged from the earlier survey.⁶

However, intermittent adjustments to compensate at least partially for the shrinkage in purchasing power of pension benefits have become increasingly common in recent years. Some 74 percent of the pension plans reviewed by the Bankers Trust Company had granted at least one benefit increase to retired employees between 1970 and 1975, compared with 81 percent between 1974 and 1979.⁷ Virtually all of these increases fell short of the sharp rise in the cost of living during those two five-year intervals.

The 1979 Conference Board survey finds that 50 percent of the respondents have granted their retirees at least one ad hoc increase since 1973—85 percent gave one or two increases and only 15 percent gave three or more. The lower incidence of ad hoc increases in that survey, compared with the Bankers Trust Company's surveys, probably reflects the difference in the composition of the samples. The Conference Board's sample includes substantial numbers of medium-sized firms in addition to large ones. The two Bankers Trust Company surveys consisted of smaller samples and were confined to large corporations. It may be inferred from these responses that ad hoc increases are related to company size.

According to findings from the RHS, on the average, private pension benefits of retirees rose modestly from 1970 to 1974, while the CPI registered a steep gain. Consequently, the purchasing power of these benefits dropped markedly.⁸ For example, median private pension benefits for recipients aged 63 and 64 who were nonearners—that is, they were completely retired—increased from \$1,980 in 1970 to \$2,160 in 1974, a gain of 9 percent—but in constant (1974) dollars fell 14 percent from \$2,510 to

⁵Mitchell Meyer and Harland Fox, *Profile of Employee Benefits*, The Conference Board, Report No. 645, 1974.

⁶Mitchell Meyer, *Profile of Employee Benefits*, 1980 Edition (forthcoming). The Conference Board.

⁷Bankers Trust Company, *1975 Study of Corporate Pension Plans*. New York, 1975. Bankers Trust Company press release presenting preliminary data from forthcoming 1979 survey of corporate pension plans.

⁸Gayle B. Thompson, "Impact of Inflation on Private Pensions of Retirees, 1970-74: Findings From the Retirement History Study." *Social Security Bulletin*, November, 1978.

Table 9: Median Private Pension Benefits for Total OASDI Beneficiary Nonearners, by Age, 1970, 1972, and 1974

Age	Nonearners Receiving Private Pension Benefits		
	1970	1972	1974
<i>Number</i>			
Total	283	737	1,151
59-60	42	....	....
61-62	93	135	....
63-64	148	236	293
65-66 .....	....	366	441
67-68 .....	....	....	417
<i>Current Dollars</i>			
Total	\$1,960	\$1,880	\$1,940
59-60	a	....	....
61-62	2,050	1,920	....
63-64	1,980	2,020	2,160
65-66 .....	....	1,790	1,890
67-68 .....	....	....	1,840
<i>1974 Dollars</i>			
Total	\$2,490	\$2,220	\$1,940
59-60	a	....	....
61-62	2,600	2,270	....
63-64	2,510	2,380	2,160
65-66 .....	....	2,110	1,890
67-68 .....	....	....	1,840

^aNot computed, base fewer than 50.

Source: Thompson, November, 1978, p. 19.

\$2,160 (Table 9). During that four-year interval, social security benefits rose about twice as fast as the CPI—60 percent in current dollars and some 30 percent in constant dollars. This 30 percent gain in purchasing power of social security benefits tended to counterbalance the decline in the purchasing power of private pension benefits, so that total retirement benefits in real terms remained relatively stable between 1970 and 1974 (Table 10).

Table 10: Median Total Retirement Benefits for Total OASDI Beneficiary Nonearners Receiving Private Pension Benefits, by Age, 1970, 1972, and 1974^a

Age	Nonearners Receiving Private Pension Benefits		
	1970	1972	1974
<i>Current Dollars</i>			
Total	\$3,660	\$4,100	\$4,800
59-60	b	....	....
61-62	3,620	4,000	....
63-64	3,720	4,150	4,960
65-66 .....	....	4,100	4,790
67-68 .....	....	....	4,720
<i>1974 Dollars</i>			
Total	\$4,650	\$4,840	\$4,800
59-60	b	....	....
61-62	4,600	4,720	....
63-64	4,720	4,900	4,960
65-66 .....	....	4,840	4,790
67-68 .....	....	....	4,720

^aTotal retirement benefits are the sum of private pension benefits and social security benefits.

^bNot computed; base fewer than 50.

Source: Thompson, November, 1978, p. 21.

Extrapolating from these data, the implication is that total retirement benefits since 1974 have slipped in real terms: Benefits from private pensions probably have continued to rise more slowly than the cost of living, and social security benefits have risen at the rate of the CPI, as required by law, instead of twice as fast as the CPI—as happened between 1970 and 1974. Thompson concludes that the purchasing power of retirement benefits will deteriorate further if rates of increase in pension benefits continue to trail the inflation rate, and social security benefits rise at the rate of the CPI.

With the majority of workers taking early retirement, together with expanding longevity, more and more people will spend ten, twenty and even more years in retirement. Consequently, the purchasing power of many retirees with private pensions and other fixed income will eventually suffer severe attrition (Table 11). The smaller the share of retirement income that

Table 11: Erosion of Retirement Income of Recipients of Social Security: 10 Years and 20 Years after Retirement— Hypothetical Cases

Years Since Retirement	Seven Percent Annual Rate of Inflation			Ten Percent Annual Rate of Inflation			Twelve Percent Annual Rate of Inflation		
	Social Security as a Percent of Total Retirement Income			Social Security as a Percent of Total Retirement Income			Social Security as a Percent of Total Retirement Income		
	25%	50%	75%	25%	50%	75%	25%	50%	75%
Purchasing Power of Income at Three Points in Time									
At Retirement.....	100%	100%	100%	100%	100%	100%	100%	100%	100%
10 Years After.....	63	75	88	54	89	85	49	66	83
20 Years After.....	44	63	81	36	57	79	33	55	78

Note: The assumption implicit in these calculations is that income other than social security is fixed, that is, it is not adjusted for inflation; social security is indexed.

Source: The Conference Board

is adjusted to increases in the CPI, the greater is the erosion of purchasing power. In any case, the stability in the real value of the social security component acts as a counterweight to the loss of purchasing power of private pension benefits, or any other income that is either fixed or lags behind the cost of living. Without that stable component, the problem of the shrinking value of retirees' incomes obviously would be exacerbated.

Although labor unions may press harder to get cost-of-living adjustments (COLA's) built into pension plans, the potentially huge cost of such provisions probably precludes their becoming widespread within the next few years. It is the judgment of one analyst of the U.S. pension system, Alicia H. Munnell (Vice President and Economist at the Federal Reserve Bank of Boston), that only the Federal Government could afford to provide such a costly guarantee. She concludes, therefore, that the share of retirement income provided by private pensions would probably shrink should high levels of inflation persist.⁹ But perceptions of what is affordable and what is desirable often change over time. Therefore, it is not an unreasonable expectation that, before the end of the 1980's, COLA clauses in pension plans—at least those providing partial indexation—may be considerably more common than they are today.

Poverty

The data on poverty provide another indication of the relative improvement in the economic status of persons 65 and older. Obviously, a definition of poverty cannot be arrived at entirely objectively. Some of the questions implicit in the determination of such a definition are: Should the poverty index reflect the amount of money needed for a minimal standard of living or a reasonable standard of living? Far more difficult questions are what is "minimal" and what is "reasonable"? And who is to define them?

⁹Alicia H. Munnell, "Are Private Pensions Doomed?" *New England Economic Review*, (Federal Reserve Bank of Boston), March-April, 1978.

Table 12: Weighted Average Poverty Thresholds for Elderly Nonfarm Families of Specified Size, 1959 to 1979

Year	Unrelated Individuals Aged 65 and over	Two-Person Families, Head Aged 65 and over
1959	\$1,397	\$1,761
1967	1,600	2,017
1973	2,130	2,688
1978	3,127	3,944
1979p	3,480	4,390

p—preliminary

Sources: Social Security Administration, *Social Security Bulletin Annual Statistical Supplement*, 1972 and 1976; Bureau of the Census, *Current Population Reports*, Series P-60, No. 120 (November, 1979); from unpublished data from the U.S. Bureau of Census.

In complex societies like ours, where consumption patterns are diverse—reflecting a variety of income levels, tastes, attitudes toward thrift and indulgence, and aspirations, in addition to changing standards of living over time—the task becomes formidable. Perhaps nobody is more cognizant of the difficulties and snares encountered in developing a concept of poverty than Mollie Orshansky, the economist at the Social Security Administration who, in 1964, created what has become the official U.S. poverty measure. It is based on estimates by the Department of Agriculture of the cost of a minimum adequate diet in 1963.¹⁰ Poverty thresholds vary by size of family, sex and age of family head, number of children under 18, and farm or non-farm residence. Farm families are assumed to need 85 percent of the money income of nonfarm families. The index is adjusted annually to reflect changes in the Consumer Price Index. Trends in poverty level for the elderly since 1959 appear in Table 12.

The Bureau of the Census also publishes an alternate set of figures designed to identify those persons who are above the official poverty threshold but are still considered to be in stringent economic circumstances. This additional measure counts the number of persons whose incomes are between 100 and 125 percent of the “poverty line,” and designates them as “near poor” or as being in “near poverty.” Most recently, Orshansky has introduced an update of the official poverty matrix for the elderly (Table 13).

¹⁰The level of income needed for a family of three or more persons was estimated to be three times the cost of their food consumption. Slightly higher factors were used in the multiplication formula to arrive at the poverty threshold for two-person families and for unrelated individuals in order to take into account the relatively higher fixed costs of these smaller units.

Table 13: Alternative Measures of Money Income for Independent Living for the Elderly, 1979

<i>Alternative Measures</i>	<i>Husband-Wife Household¹</i>	<i>Single Person²</i>
Official Poverty Lines		
Poor.....	\$4,390	\$3,480
Near Poor.....	5,488	4,350
Orshansky Update ³		
Poor.....	\$6,090	\$4,880
Near Poor.....	7,615	6,100
BLS Lower Budget.....	\$5,514 ^a	\$3,214 ^a

¹Husband 65 or older.

²65 or older.

³Uses the U.S. Department of Agriculture's 1975 Thrifty Food Plan (based on nutrient allowances as revised in 1974) which is more costly than the 1963 food plan—even when corrected for inflation. Also, based on more recent consumption patterns, the multiplier that is applied to the food budget to calculate the total budget is 4.3 for two-person families (instead of 3.7 used in the calculations of the official poverty line) and the total budget for single individuals is calculated at 80 percent of that of the two-person family.

^a1978, latest data available.

Sources: U.S. Bureau of the Census (prepublication); Mollie Orshansky, (Social Security Administration); U.S. Bureau of Labor Statistics, *News*, "Three Budgets for a Retired Couple, Autumn 1978".

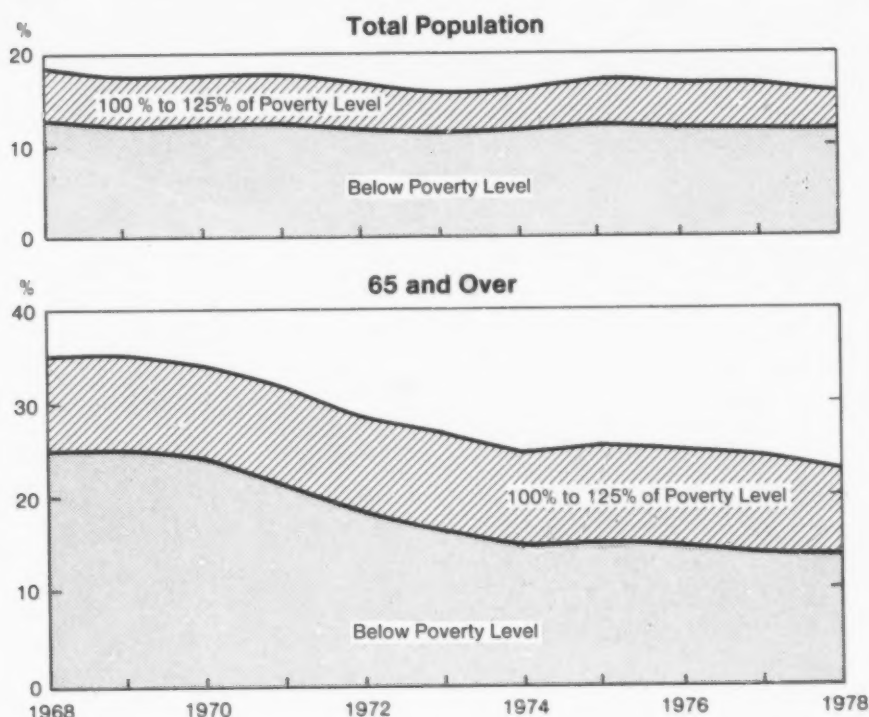
Decline in Number of Aged Poor

Despite a rise in the 65-and-over population from 19.1 million in 1968 to 24.1 million in 1978, the number of persons of that age living in poverty dropped from 4.6 million to 3.2 million. The proportion in poverty thus fell from nearly 25 percent in 1968 to 14 percent in 1978.

The decline in the poverty rate for the entire population was considerably less striking—having gone from 13 percent to 11 percent during that 10-year interval (Chart 12). Consequently, the huge gap in the incidence of poverty between the under-65 and the over-65 population has narrowed impressively during the past decade. Increases in social security benefits, many of them favoring the lower-income beneficiaries, are largely responsible for the especially steep decline in the percentage of very poor among the aged.

While the number of elderly poor dropped some 30 percent from 1968 to 1978, the number in "near poverty" has been roughly keeping pace with the growth in the total 65-plus population. Consequently, the near poor as a percentage of the total 65-plus population had held relatively steady—at between 9 and 10 percent—in the past decade (Chart 12). In 1978, nearly one-quarter of the persons aged 65 and over were either poor or near poor. While this is still a very large share, it nevertheless does show marked improvement since 1968, when the proportion was about 35 percent; it also

Chart 12: Poverty Rates for Total Population and Persons 65 and Over, 1967 to 1978*



*The poverty rate is the percent of persons whose income is below the official poverty level. See Table 12 for poverty levels for selected years.

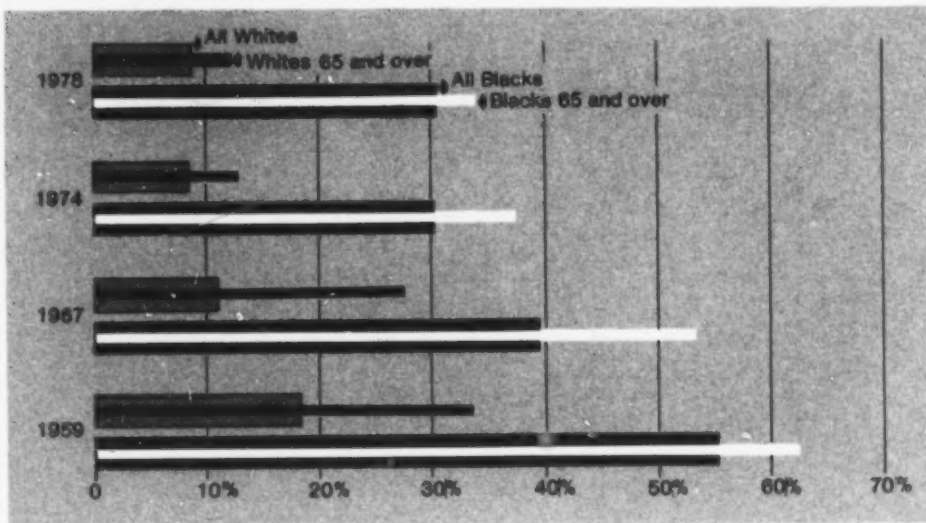
Source: U.S. Bureau of the Census, *Current Population Surveys*, P-60, Nos. 86 (December, 1972), 95 (July, 1974), 116 (July, 1978), and 120 (November, 1979).

shows greater improvement than the comparable data for the entire population with a ratio of 18 percent in 1968 and nearly 16 percent in 1978.

The downtrend in the poverty rate for the aged is even more pronounced than the official figures indicate since nonmoney items such as food stamps, medicare, medicaid, public housing, and other in-kind benefits are not included as income in the poverty computations. The value of these benefits has risen faster than money income in the past decade. It was estimated by the Congressional Budget Office that the poverty rate for the 65-and-over population in fiscal 1976 would have been around 6 percent if in-kind benefits were included in the calculation of their income.¹¹ The official poverty rate in that year was 15 percent.

¹¹ Mathematica Policy Research, "Analysis of Current Income Maintenance Programs and Budget Alternatives Fiscal Years 1976, 1978, and 1982: Technical Documentation and Basic Output." March, 1977, cited in Congressional Budget Office, *Poverty Status of Families Under Alternative Definitions of Income*, Background Paper No. 17, June, 1977, Table 6.

Chart 13: Poverty Rates for Total Population and Persons 65 and Over, by Color, 1959 to 1978*



*Poverty rates indicate the proportion of persons below the poverty threshold. See Table 12 for poverty thresholds for selected years.

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-60, No. 120 (November, 1979).

The sharp reduction in the poverty rate for the 65-and-over population coincides with a shrinkage in its labor-force participation rates. Some 14.5 percent of the people 65 and over were in the labor force in 1979, compared with 17.3 percent a decade earlier. While this decline is a result of many influences, it particularly reflects the sharp rise in social security benefits. The average social security retired-worker benefit for those receiving their first payment in 1969 was \$106, or \$210 in 1979 dollars, compared with about \$305 in 1979, representing an increment in purchasing power of 45 percent.

Supplemental Security Income

Supplemental Security Income (SSI) benefits, which went into effect in January, 1974, have contributed modestly to the comparatively large gains in income for the 65-plus population. (In addition to the elderly, these benefits are available to the blind and handicapped. Most states supplement the basic amount financed by the Federal Government.) In December, 1979, some 8 percent of the 65-plus population were receiving SSI—5 percent of the men and 10 percent of the women.

However, the number of elderly persons receiving SSI has been shrinking steadily—from 2.3 million in December, 1975, to 1.9 million year-end 1979—while the total number of aged persons has grown. This is another

piece of evidence attesting to the improving economic situation of the aged since it means that smaller proportions of them have incomes low enough to qualify for SSI.

Poverty More Prevalent Among Blacks

Poverty rates are considerably higher for blacks than for whites—for the elderly as well as for the general population (Chart 13). Also, the drop in the poverty rate in the past two decades was greater for whites than for blacks, so the relative black-white gap had widened for both the elderly and others. In 1978, some 12 percent of the 65-plus white population was below the poverty threshold, compared with 34 percent of the blacks. In 1959, for the 65-plus population, 33 percent of the whites and 63 percent of the blacks were poor.

While impressive gains in moving people out of poverty have been achieved by both blacks and whites, as indicated by these data, gains by whites have been relatively greater. By 1978, blacks aged 65 or more were nearly three times as likely to be poor as their white counterparts, compared with 1959 when the probability was less than two-to-one. By 1978, the incidence of poverty among elderly blacks—despite enormous improvement since the late 1950's—was roughly equal to that of elderly whites two decades earlier.

Chapter 5

Policy Options

PREPARATION for the enormous bulge in the 65-plus population which will take place between 2010 and 2030 cannot be postponed much longer. While it is, of course, not feasible to set concrete, immutable policy now for a time 30 years hence, flexible long-range planning is crucial. Policymakers in both the private and public sectors will have to decide whether serious efforts should be made to reverse the downtrend in labor-force participation of older persons. Part of the success of such an effort will be predicated on a rate of economic growth great enough to retain expanding numbers of older workers while absorbing younger ones.

Pension policy is another area that undoubtedly will be undergoing reappraisal in the near future. Among the questions that will be addressed by personnel and financial executives is whether private pension plans should include COLA provisions. During periods of high inflation, such as we have witnessed in the past several years, the cost of full indexation would be exorbitant, but partial indexing will certainly be increasingly discussed during the 1980's. A related issue is the question of providing increments in pension benefits for already retired employees. Employers will be weighing the feasibility of such increases and, further, what method to use—ad hoc increases, partial indexing, or some other method.

Collective bargaining for retirees is another emerging issue. Bargaining by union with employers on behalf of retired employees is still uncommon, but it is gaining attention. In the public sector, there will undoubtedly be consideration of "double-dipping" as more efforts are made to control state-local expenditures.

Another matter that will probably be on the near-term national agenda is the matter of funding social security partially—if not wholly—through general revenues. Variations on that theme may include taxing part of social security benefits on the one hand, and credits for social security payments on the other.

Advisory Council on Social Security

A narrow majority of the 1979 Advisory Council on Social Security, in its December, 1979 report, recommended that the normal retirement age for full social security benefits be raised gradually from 65 to 68 starting at the turn of the century.¹ The group that favored such legislation urged that it be enacted soon, but that it would not go into effect until the year 2000 when the normal retirement age would be increased gradually—by two months each year—until 2018 when it would reach 68; actuarially reduced benefits would start at 65 instead of 62. This would allow ample time for the affected age groups to prepare for the change. Such legislation would contain a self-destruct clause: If around the turn of the century the ratio between the number of covered workers and OASDI beneficiaries is greater than projected, or if for any other reason raising the normal retirement age seems inappropriate, the proposed changes would not go into effect.

Three other recommendations of the 1979 Advisory Council that received approval by at least half of its members were that the medicare portion of social security be financed through income taxes rather than payroll taxes; that half of social security benefits be subject to federal income taxes; and that social security benefits be adjusted for increases in the cost-of-living twice a year—instead of annually—when consumer prices are rising faster than 6 percent per year. The shorter the time interval between adjustments, the less is the hardship on persons with marginal incomes—particularly when inflation is high.

Whether changes in social security legislation are judged appropriate depends, of course, on the future course of several economic and sociopolitical events that cannot be predicted at this juncture. These factors include trends in labor-force participation rates of older workers; rates of productivity gain in the economy; and the rate of inflation.

"An increasingly elderly population, rising life expectancy, the distinct trend toward declining labor force participation by older people could combine to create a retirement and medical system funding problem in the 21st century. . . . Retirement and medical benefits for the elderly are already 37 percent of the Federal budget. If retirement and related benefits continue to grow faster than the economy, we must face a choice among such alternatives as reducing other Federal programs in relative size, increasing the size of the Federal sector, reducing retirement benefits or raising the retirement age. . . . Ultimately, the issue will be how much of the resources produced in 2035 by the labor force employed at the time will be transferred to the retired generation."²

¹Section 706 of the Social Security Act requires that every four years an Advisory Council be appointed by the Secretary of Health, Education and Welfare to review the Social Security Program. Among the many aspects of the program studied by the Advisory Council are long-term commitments, the extent of coverage, and adequacy of benefits. The report of their findings is submitted to the Secretary who, in turn, transmits it to Congress.

²U.S. Office of Management and Budget, *The Budget of the United States Government, Fiscal Year 1980*, Washington, D.C. 1979, pp. 56-57.

Some additional policy suggestions will undoubtedly be offered by the report of the President's Commission on Pension Policy, due in early 1981. In addition, it is expected that the whole range of problems related to an aging population, older workers, and retirement will be given a thorough airing at the White House Conference on Aging, scheduled for December, 1981. The Conference's recommendations will also be of interest to legislators, personnel executives, labor union leaders, and all others concerned with the welfare of the older members of our society.

Certainly economists, actuaries and pension specialists—both inside and outside of government—will be examining various alternatives in the coming years for keeping the social security system sound, while restraining the growth of the tax burden on the working population, and satisfying the emotional and economic needs of the older people in the population.

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